AN

INQUIRY

INTO THE

NATURE OF VALUE AND OF CAPITAL

BY

ALEXANDER B. JOHNSON

[1813]

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AN INQUIRY
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INTO THE

NATURE OF VALUE AND OF CAPITAL

AND INTO THE

OPERATION OF GOVERNMENT LOANS

BANKING INSTITUTIONS

AND

PRIVATE CREDIT

BY

ALEXANDER B. JOHNSON

[1813]

With an Introductory Essay

Alexander Bryan Johnson: A Pioneer In The Theory of Economic Policy

By JOSEPH DORFMAN

And With Two Pamphlets By Johnson Added as Supplements

THE ADVANCED VALUE OF GOLD [1862]

OUR MONETARY CONDITION [1864]

REPRINTS OF ECONOMIC CLASSICS

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ALEXANDER BRYAN JOHNSON: A PIONEER IN THE THEORY OF ECONOMIC POLICY[1]

In 1842, Governor William H. Seward of New York, (later President Lincoln's Secretary of State) asked the Utica banker, Alexander Bryan Johnson, to aid in the preparation of a report on "the progress and present condition of science and the arts in the state" by providing notes on philology and finance, "two departments which though widely separated, you have labored in with eminent success."[2] That perceptive statesman was, of course, referring to Johnson's work in the fields which today are called semantics (linguistic philosophy) and economics. My function here is to discuss his contributions to economic doctrine. Let me say at the outset that he was a worthy representative of an era in the Anglo-American world remarkable for the large number of first rank thinkers who derived their livelihood from business and finance. He was original and willing to depart from accustomed paths in both his philosophical and economic speculations. We may find a clue to his uninhibited ways of thought in that he was an "outsider," brought here at the age of fourteen by his immigrant Jewish parents. Johnson (1784-1867) himself pointed out, in his delightful essay in belles lettres quaintly titled, "How to Prosper; or The Fatal Mistake," the high proportion of those who had built large fortunes in this country who were foreign born; that is, "outsiders" in modern sociological parlance.[3]

By implication, it was the "outsider," the man not bound very strongly by the conventional preconceptions of the dominant culture, who sees the magnificent opportunities for economic advance for the community—whether it be a city or a nation—and for himself. But the concept of the "outsider" has a bearing not only in the realm of economic affairs but also in the realm of intellectual advance. Thus

[1] This is an address delivered at A Centennial Conference: The Life and Works of Alexander Bryan Johnson, September 8 and 9, 1967, sponsored by Hamilton College, Clinton, New York, and The Munson-Williams-Proctor Institute, Utica, New York. A few minor additions have been made. I wish to thank my friend and former student, Arthur Bekenstein, for assistance in preparation of this paper.

[2] Seward to Johnson, June 11, 1842, in "Autobiography," Ms. in possession of Alexander Bryan Johnson III, a great grandson.

[3] *The Knickerbocker*, or *New York Monthly Magazine*, February 1850, p. 95.

Thorstein Veblen argued that the reason the Jews were preeminent in the advance of knowledge in the western world was that leaving their native culture and coming into contact with another and different culture they were stripped to a considerable degree of the intellectual preconceptions of either and thereby enabled to analyze more clearly than the natives the developing scene.[4]

At some point Johnson's father, it seems, dropped his religious identification with Judaism and joined the Episcopal Church. Johnson himself followed in his father's footsteps to the degree that both father and son became pillars of the church. While in the religious sphere Johnson chose to identify himself with one of the most socially acceptable and orthodox groups, his intellectual contacts were with a wide variety of heterodox and in some cases even radical thinkers. He was not a radical, but was enough of a "free thinker" to advocate transmission of mail on Sunday by the post office, and for this he drew sharp criticism.

Johnson had little formal education. Early in life, however, he amassed substantial wealth through his investments in manifold enterprises, particularly banks and land dealings. As a result, he had the leisure to pursue his varied intellectual interests. We might speculate that another factor in his intellectual development may have been his marriage with a granddaughter of President John Adams whereby he became related to what was then one of the most eminent families of the nation. Though seemingly proud of this relationship, he was still sufficiently the maverick to be unwilling to embrace the Federalist political and economic philosophy of the Adams clan:[5] a strong central government invested with the powers, among others, to provide a national bank, aid internal improvements and institute a protective tariff.

Johnson displayed open mindedness and broad-gauged curiosity in his readings in economic theory. In 1811-1812, while he was visiting in New York City, a fellow boarder, a Scotsman, lent him a number

[4] "The Intellectual Preeminence of Jews in Modern Europe," 1908; reprinted in *Essays in Our Changing Order,* ed. Leon Ardzrooni, with the addition of a recently discovered memorandum, "Wire Barrage," supplied by Joseph Dorfman (1934, 2nd ed., New York: Kelley, 1964) pp. 219-231.

[5] On the creed of John Adams, see Joseph Dorfman, "The Regal Republic of John Adams," 1944; reprinted in *Origins of Political Thought,* ed. John P. Roche (New York: Harpers, 1967) pp. 115-138.

John Quincy Adams and Charles Francis Adams who were Johnson's contemporaries, express the contrast in clearest fashion.

of books on economics. The list is revealing of the diversity of views of the specific authors he later mentioned with evident approval in his "Autobiography," namely, Adam Smith, Bernard de Mandeville and the Earl of Lauderdale. He read both of Adam Smith's major works, *The Theory of Moral Sentiments* and *The Wealth of Nations,* and like most economists of his day he considered himself a follower of "Professor Smith" and his system of natural liberty.[6] But his adherence to Adam Smith was not such as to cause him to follow his master in his sharp condemnation of Mandeville's *The Fable of the Bees, or, Private Vices, Public Benefits,* which maintained that private vices such as luxurious expenditures were in themselves or, "by the dextrous management of a skilful politician," public virtues in the sense of animating and developing the economy; and, Adam Smith, had he lived to read it, would similarly have condemned Lauderdale's *An Inquiry into the Nature and Origin of Publick Wealth and into the Means and Causes of Its Increase* (1804) which asserted that the redemption of the public debt was the most active means of diminishing the nation's wealth and prosperity.

Johnson's material success, which, as we have already noted, made it possible for him to write and engage in the intellectual give and take of the day, had still another effect on his economic and social thinking. This was the influence of the manner and type of enterprises through which he gained wealth. He ran a store, dealt extensively in lands and was quite a real estate developer in Utica. Barely more than a youth, he promoted a glass factory in Geneva, New York, speculated in New York City banks stocks, established or invested heavily in banks throughout western New York and he was active in communications, beginning with the Erie Canal system and then railroads. His first occupation which provided the foundation not only of his fortune, but also for the understanding of the economic mechanism, was his participation in the operation of his father's general store in Utica. By the time he and his father retired from this enterprise in 1810, with enough to live very comfortably on the income, they controlled most of the business of receiving produce and distributing merchandise in the Mohawk Valley. Johnson's description of his father's aim showed his insight into what some influ-

[6] *An Inquiry into the Nature of Value and Capital, and into the Operation of Government Loans, Banking Institutions, and Private Credit* with an Appendix: *An Inquiry into the Causes which Regulate the Rate of Interest, and the Price of Stocks* (New York: privately printed, 1813) p. 3. Hereafter referred to as *Value and Capital.*

ential students hold is the objective of leading enterprisers; namely, not maximization of profit, but an increasing share of the volume of business of the industry. "My father's ambition," he wrote in his "Autobiography," "was more devoted to the transaction of a large business than to make money therefrom. To attain his objective he sought the reputation of selling goods at lower prices than his village contemporaries and to purchase country produce at higher prices." Interestingly, Johnson thought that his father had overdone this and claimed that in the last few years, he convinced the elder Johnson "not to participate in the rivalry so as to disregard the acquisition of money."[7] His own investments, however, in an ever increasing number of banks in the region, some of which proved quite troublesome, suggest that he too was motivated by the desire to obtain a greater share of business and power in his industry, a motive he may not have cared to admit lest he lose his reputation for having a keen interest in money making.[8]

Let me now turn to Johnson's systematic economics. At the age of twenty-seven he began to write on the subject and continued to do so for over half a century. Of his first and most important study, *An Inquiry into the Nature of Value and of Capital, and into the Operation of Government Loans, Banking Institutions and Private Credit,* (1813) he declared in 1862 that the only thing he would now alter, was "the composition which my inexperience and defective education made very faulty." He recalled that at the time of publication during the War of 1812, "the banks had not yet suspended specie payments, and an opinion was prevalent that on such an occurrence bank notes would become worthless." But when the suspension occurred shortly afterwards, then, as he had predicted in his abstruse investigation, it "impaired not the currency of the notes, a sufficiency of bank debtors existing to whom the notes answered all the purposes of specie and who had to obtain them or obtain specie. The specie suspension of the banks was in truth a specie suspension of only the bank's debtors—for as long as the debtors

[7] "Autobiography."

[8] Johnson recorded that when he was courting his first wife, her mother consulted a friend as to Johnson's character. The friend said he "possessed only one fault . . . and that was too much fondness for money and that Mrs. Adams deemed in my favor as she had seen in her own family the bad consequences of an opposite character." ("Autobiography.")

could pay in specie the banks could pay."[9] The view that inconvertible paper could serve as money, at least for a time, was one of the greatest heresies in dominant economic theory. But to get a clear view of Johnson's position in this as well as other subjects, we should begin with his theory of value for he held that policy must be based on a sound theory of value. Actually, Johnson's theory of value was for the most part the standard classical doctrine, emphasizing mainly scarcity and cost of production and devoting very little attention to the place of demand.[10]

The preoccupation of Johnson (like most of his contemporary workers in the field) with value theory was closely tied to his interest in the production and maintenance of the nation's wealth. Where Johnson did depart from the mainstream was in his thesis that both

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[9] "Autobiography."

[10] A decade or so later, complaints were made that economists were concerning themselves almost exclusively with a theory of value. The following amusing sketch is from "Political Economy," in *The Belles-Lettres Repository,* December 1820, a journal for which Johnson wrote.

"Mr. Editor: Stopping in at Lang's last Saturday after church, as is usual with us men of business, to hear the news, and learn the price of stocks, etc., my attention was arrested by a debate between two gentlemen that seemed to wax a little warm. I endeavored to catch the subject in dispute (which, by the bye, is not always an easy matter to accomplish on such occasions) and fortunately succeeded: it was the new tariff of duties as it is called; but whether the disputants were merchants or manufacturers, I was not able to ascertain; perhaps you, or your readers may. 'You,' said Mr. A., 'talk a great deal about the science of political economy—do you know what it is?'

Mr. B. Yes.

A. Will you define it?

B. I will give you my definition of it.

A. What is it?

B. The knowledge of the relative value of a thing.

A. Is that the extent of the important science you speak of?

B. That is only my first head.

A. And pray, what is the second head?

B. Why, a knowledge of the relative value of everything.

A. Then it is *any* thing, and *every* thing?

B. Yes, relatively considered.

A. I can't understand your definition.—Good bye, sir.'

I reflected upon this, but with little satisfaction. Will you, Mr. Editor, or some of your valuable correspondents, be kind enough to explain what the science of political economy is? The argument I heard set me thinking on the subject, and my mind has ever since been afloat on the ocean of uncertainty.

Yours,
Interrogator."

government debt and banking institutions were important and useful tools for increasing the total wealth of the state and the nation as a whole.

Following this line he contended that public loans increased the nation's capital to the amount of the loans. The holders obtain "all the advantages that other articles of capital yield . . . [T]hey are exchangeable in a foreign or domestic market in the same manner and to the same effect, that so much gold or silver may be exchanged or indeed any other object of man's desire."[11] In general, Johnson felt that the economic effect of issuing government bonds was almost the same as if a new gold strike were made within the country. The difference was in the administration and the need for sufficient revenues to meet the interest payments. He implied that the collective, that is, public use of the money may have been more productive than if the money were left to be expended by the individual citizen.

Commenting on the Revolutionary War debt, which in its original form had not included provision for funding, Johnson said that when funded, it constituted an addition to the nation's wealth. "The new capital was employed in multiplying the objects of man's desire; in stimulating industry, and in rendering its efforts more productive," so that the profit far exceeded the interest charge. This effect was achieved because the negotiable securities "were used as a trading capital and therefore benefitted not only the first receivers . . . but every other person who could be influenced by the magnitude of capital in the nation."[12] Any taxes beyond those required for minimum government functions and to service the public debt would tend to reduce activity. Taxes levied for the purpose of reducing public debt are of this destructive type.

Besides his shrewd and incisive analysis of the deflationary tendencies produced by repayment of the public debt, Johnson put forth a strikingly ingenious description of how the redemption affected the individual bondholder. The bondholder upon being repaid would not find himself any richer because the face amount of the bonds he had always calculated as part of his wealth. Indeed, to the extent that he was taxed to help liquidate the debt, his net worth was reduced. An individual when he calculates his fortune, does not

[11] *Value and Capital,* p. 68.

[12] *Value and Capital,* pp. 85-87.

estimate how much of the national debt is his share and deduct it from his estate. "In owing an individual debt, this debtor is conscious that the principal must be . . . liquidated at some period . . . and that the interest will be chargeable to him until the debt is satisfied. In owing a public debt, however, there is no such necessity for the payment of it being made by him, and no such positive knowledge that the interest will continue chargeable to him until it is paid." The only valid reason for liquidating a national debt is that it would eliminate the taxes necessary for meeting the interest; but the same objection holds against bank notes and other "credit capital." Whether a measure is expedient or not depended on "the balance of advantages and disadvantages, and so long as the use of capital is found more productive than the amount of interest necessary to keep it in existence, so long will its being kept in existence prove advantageous to the nation."[13]

Johnson's unorthodox monetary theories were consistent with his stand on the useful function of a public debt to the growth of a nation's economy; to wit, he argued that unrestricted convertibility of bank notes into specie was not essential and indeed could at times hamper business activity. He pointed to the experience in England in the period 1797 to 1821 during which the notes of the central bank, the Bank of England, were not convertible into gold. Despite the lack of convertibility such paper was still in good demand. Individuals exchanged their private notes for those of the bank because of the superior and more widely diffused confidence that is placed in the bankers. The discount charge is for the use of the bankers' name and credit. Even where there is specie redemption, the bankers could never redeem all these notes at once for the bank note capital far exceeded the specie capital. Suppose the banks found they could not meet the demand for specie in return for their obligations and suspend redemption of specie payments? Judging by the experience of the Bank of England, the acceptability of bank notes would hardly be impaired. There would still be a profitable use for all the bank notes in circulation, because they would have enough notes of individuals to represent their own. Consequently the bank's debtors would be as anxious as ever to obtain them to redeem their obligations and demand would be kept up. Johnson added the important qualifications: this would only be the case provided that "the bank

[13] *Value and Capital*, pp. 89-90.

. . . has not acted fradulently, or . . . has not been unfortunate or indiscreet in loaning to individuals who are incapable of refunding the amount borrowed."[14]

Later Johnson conceded that the notes of the Bank of England had depreciated during the suspension of specie payments, but felt that this did not affect the argument. The government's creditors were paid in the bank notes though the price of gold in the bank notes increased at times 25 per cent. Johnson claimed that the apparent injustice was greater than the real, because the suspension operated on gold like a monopoly. As gold became a scarce article, those needing it for exportation, manufacture or for any other use which paper money could not perform had to purchase gold as merchandise, at the price it "had attained by the well-known laws of scarcity."[15]

In "A Treatise on Banking," he scathingly denounced the rigidities of the hard money standard which forced the Bank to redeem in specie notes and deposits on demand. Thus the Bank must "subordinate the amount of its currency, and consequently the amount of its . . . loans to the accidental fluctuations . . . in the demand for specie, how disastrously soever the subordination may affect the internal commerce of the kingdom." If the Bank could substitute inconvertible notes, specie could be exported or imported according to the requirements of commerce, without any derangement of business. Such a currency would be as expandible as the nation's

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[14] *Value and Capital,* p. 23.

[15] "The Present and Prospective Value of Gold," 1851; reprinted in *A Guide to the Right Understanding of Our American Union* (New York: Derby and Jackson, 1857) p. 288. Hereafter referred to as *A Guide.*

During the suspension of specie payments in 1837-1838, Johnson argued that "So long as banks can pay their debts in as good funds as any other debtors, I have yet to learn wherein banks are more culpable for not paying specie than other debtors. . . . The notes of all the banks of our state, are, at this moment, as desirable within the state as specie, for all the legitimate purposes of money; and with them you can purchase even specie itself, if you will pay the excess between the value of specie as coin, and specie as merchandise for exportation. If a time shall arise when banks cannot pay their engagements in as good funds as other debtors, I admit they will be responsible for all damages that shall proceed from their *peculiar delinquency;* but while banks are no more than common sufferers by a common calamity, (if the absence of specie may be thus designated,) no more propriety exists in inflicting on banks any peculiar punishment or losses than in punishing bakers, if our stock of wheat should happen to become exhausted." (Johnson to Flagg, July 5, 1837 in Flagg Papers, New York Public Library.)

business needs; "and without losing intrinsically, its ultimate specie value," since bank debtors would be compelled to get specie to the extent that they could not obtain bank notes.[16]

With all his strong advocacy of "soft money" policies, Johnson nevertheless retained certain doubts as to how an all out inconvertible standard would function in actual practice. In 1849 he suggested that the natural supply and demand processes of the money market might break down and the central bank might blunder into issuing excessive quantities of paper money resulting in disastrous inflation. While he did not offer a specific policy of safeguards to prevent such an occurrence he did warn that it was dangerous to leave the issuance of paper money entirely in the hands of central bank managers.[17]

In the bitter contest between the supporters of the Second Bank of the United States (led by Daniel Webster, Henry Clay and the bank's president, Nicholas Biddle) and President Jackson over rechartering the Bank, Johnson was an effective writer and speaker in support of the President. The President had followed his successful veto of the recharter bill (1832) by directing the discontinuance in October 1833 of the Bank as the depository of the government funds and the using instead of selected state banks in order, as Johnson put it, "to diminish the means of the Bank to create a pecuniary distress [by destroying credit and confidence] that should admit of no relief but a renewal of the Bank's charter." The Bank brought such pressure to bear on individual debtors and the state banks, that by the beginning of 1834, the New York banks "were generally in great danger of being compelled to stop payment." In March, Johnson

[16] "A Treatise on Banking," *The Bankers' Magazine and Statistical Register*, January 1849, p. 745.

[17] "Possibly, therefore, the power to create such a currency cannot be safely committed to any institution and evils less radical result from the existing system of paper money, notwithstanding its sudden contractions on a foreign demand for specie, than would result from any different system." ("A Treatise on Banking," p. 746.)

During the Civil War, while as might have been expected he supported the government inconvertible currency—the famous greenbacks—still he looked forward to the return of hard money after the war. [See *Our Monetary Condition* (1864), reprinted below as Supplement no. 2.] Similarly after the money panic and suspension of specie payments in May 1837, he was a leader in the movement for setting a date in the near future for the banks to resume specie payments. According to the *Minutes of the Proceedings of the Bank Convention* (1837), he proposed on December 2, "that the banks of the several states will resume specie payments on or before the first day of March next." At the time only three states out of the eighteen represented supported him—New York, North Carolina, and Ohio.

informed two of the most powerful men in the ruling Democratic party of the state, of his novel plan to relieve the banks through the use of the state's fiscal powers. To Thomas W. Olcott, of the Mechanics' and Farmers' Bank, Albany, Johnson wrote that the commissioners of the Canal Fund had the power to sell state-guaranteed bonds prematurely for the construction of the Chenango canal between Utica on the Erie Canal and Binghamton on the Susquehanna River. The bonds, he wrote, were as good as gold and silver, for they possessed a ready market in Europe. "I suggested that a sufficient amount should be created and sold and the proceeds deposited in the banks of Albany" serving as general redeeming agents for the bank notes of the country banks.[18] On March 15, G. C. Bronson, the state attorney general and a commissioner of the Canal Fund, informed Johnson that Olcott had presented the plan to him and that he and his fellow commissioners had authorized advertisement of the Chenango Canal Loan of $900,000. It was now up to the Albany banks, Bronson continued, to be the highest bidder, (in order to secure the payments from resale and thus be in a position to become the depository for the proceeds until they were actually needed for construction some time in the future.) He warned: "Do not give way to alarm; the country is safe. Much has been done to cripple New York, but not a bone of her is yet broken—and will not be, if our bankers and capitalists will not give way to unnecessary panic."[19]

Johnson felt that this relief would not be enough, and meanwhile presented to Olcott the idea that the state issue bonds and lend the proceeds to those who needed assistance. Olcott replied that

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[18] "Autobiography."

"[In 1834] Some of the banks of Albany undertook the purchase of country bank notes at a moderate discount, and sent them home for redemption by a messenger." [D. R. Dewey, *State Banking Before the Civil War* (Washington: Government Printing Office, 1910) p. 96.]

[19] Bronson to Johnson, March 15, 1834, in "Autobiography."

The Annual Report of the Commissioners of the Canal Fund for 1835 states that Olcott and Richard Yates, in behalf of the New York State Bank, Albany, and the Mechanics' and Farmers' Bank made the best offer. They offered "to loan the whole sum of $900,000 and to pay a premium of 6½ per cent for a five per cent stock, redeemable after 1845 . . . The stock to be issued at once, and the money deposited equally in the banks making the loan, to the credit of the Commissioners, and not to be drawn from faster than required for actual disbursements in constructing the canal. The funds now on hand to be first used. The interest on the deposit not to exceed the interest now allowed the Commissioners of the Canal Fund.

the suggestion had been favorably received by the state administration but the legislature could only be moved "if it can be made to appear necessary by public meetings, as suggested by you. . . . You will, therefore, have the goodness to adopt the necessary measures for accomplishing the important object. The crisis is not yet arrived. Our country banks have yet to meet the spring pressure. The Comptroller suggests loans to individuals, through the officers of each county . . . as well as through the banks. You will, therefore, open the necessary correspondence for bringing out the greatest amount of public expression in favor of this measure for relief. We may yet bid defiance to the monster."[20]

Johnson arranged for a public mass meeting on March 25. There he exclaimed that the distress was produced by an invasion by a private corporation, from Chestnut Street, Philadelphia. He declared, "I care not now whether the Bank [of the United States] be constitutional or unconstitutional; a necessary fiscal agent or unnecessary; whether the public deposits were rightfully removed by Government, or wrongfully, these questions are all merged in the greater issue of whether the country shall be coerced to grant the Bank a recharter." Irrespective of any great services the Bank might render, the question was "should the Government conquer the Bank, or should the Bank conquer the Government." He concluded by urging that people of every state call on their legislatures to remove their pecuniary difficulties; and for New York the best remedy was a bond issue, its "ability to create, at a moment and without cost, a stock [bonds] that is equivalent to gold and silver."[21]

On April 19, 1834, the legislature passed an Act Authorizing a

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The two banks . . . are the general depositing banks of the Canal Fund for which deposits as they are drawn upon from day to day for the current expenses of the canal, they pay an interest of only 3½ per cent. As the commissioners had during the preceding year, made numerous loans at 5 per cent and had in their files several offers at the same rate, the persons making the offer were informed that if the deposit were given to the two banks in question, an interest of five per cent, payable quarterly, would be exacted, and with that understanding the proposition of the two banks was accepted."

[20] Olcott to Johnson, March 18, 1834 in "Autobiography." The Comptroller, Azariah C. Flagg, was a powerful Democratic leader.

[21] "Speech Before a Meeting of the Democratic Citizens of Utica on the Subject of the United States Bank," 1834; reprinted in *A Guide*, pp. 132, 136. In the original version, in consistency with his views on public debt, Johnson argued that the principal need not ever be repaid.

Loan for the Benefit of the People of This State. The state could issue $6,000,000 worth of bonds; of these $4,000,000 would be lent to New York City banks, and the proceeds of the remainder would be lent to individual citizens by the Commissioners for Loaning Money in each county "as provided by the Act of April 11, 1808." This action Johnson shortly afterwards eloquently described as "the majestic efforts of the state itself, which nobly opened its veins to our exhausted mouths, and revived credit at its expiring gasp."[22]

The controversy over the Second Bank stimulated interest in the entire area of monetary and banking affairs both at the federal and state levels. Numerous reform proposals were put forth. Towards most of these, Johnson was at least skeptical and in several instances was actively opposed. Generally, in his thinking, any proposal for reform had to meet one test: namely, what effect would the measure have on the supply and utilization of specie. This concern carried until the California gold rush of 1849 which resulted in the nation's having for the first time in its history a large addition to the supply of specie. Typical of this position was his criticism of the recommendation of his fellow Democrat, Governor Marcy in 1838, that banks be compelled to maintain a specie reserve of fifteen per cent of their capital or twenty per cent of their bank notes and deposits. "Our banking difficulties," Johnson contended, "spring from the fact that there is a scarcity of specie and enough of it does not exist in the world for the present extended use of commerce and credit." The governor's remedy would create "a new use" for $6,000,000 in specie for the reserves that would be idle and useless at the very time that we should be reducing as much as possible the use of specie, as does small notes.

Johnson successfully fought the demand of the extreme hard money Jacksonian leadership in the legislature to end corporate banking with its privilege of limited liability and replace it with a system of private banking with unlimited liability and bank notes backed

[22] "Letter of A. B. Johnson, Esq." 1834; reprinted as a pamphlet with a "Prefatory Note" by Jacob Zeitlin (Pasadena, California, privately printed, 1948) pp. 7-8. The original copy was supplied by Professor Stillman Drake of the University of Toronto.

Governor Marcy declared in his annual message to the legislature on January 6, 1835, that the mere announcement of the arrangements under the Loan Law had played a large part in bringing about a return to prosperity, and as a consequence it had not been necessary to pledge the credit of the state; that is, no positive action had to be taken.

practically by 100 per cent specie or equivalent. Along the same line following the demise of the Second Bank of the United States, he strongly opposed the policy of Jackson's heir, President Martin Van Buren, by which the government held all its specie in its own treasury (and sub-treasuries) rather than in selected state banks. The system, he complained, was "locking up and subtracting specie from the business wants of the country."[23] So strongly did he attack the policy of "divorcing the federal government from the banks," as it was called, that he temporarily forsook the Democratic Party in the presidential campaign of 1840, and as a member of the Conservative Democratic faction supported the successful Whig candidate, General William Henry Harrison.

Johnson in upholding usury laws took a most unusual position for a banker. In this instance, however, his unorthodoxy may have sprung in part from the fact that he was engaged in a number of other enterprises besides banking, in which his role was often that of a borrower.

His attitude towards government aid for internal improvements, or, as they are called today, public works, was similarly influenced by his participation in the financing of the construction of the Erie Canal. He did have certain reservations concerning the role of the federal government in public works, primarily the fear that the largeness of the national government created a tendency to despotism and for more waste and corruption. He put forth the usual arguments for internal improvements such as that they facilitated commerce and thus added to the nation's wealth. But he went beyond thinkers of the day in questioning that financial self sufficiency was a necessary criterion for judging the desirability of a project. He held that: "So far as income is a test of the amount of business which a canal facilitates, it is important, but whether any such income shall be collected or not, is a question of national policy, the benefits of abandoning an income being, in some cases, greater than the income. The debt, also, which our State has contracted in the construction of its canals will not surprise posterity should we not pay it, provided we transmit the canals with the debt . . . [for the] canals . . . promise to increase in lucrativeness as our country increases in population and productiveness. The true question, therefore . . . in relation to completing our canals is, Whether the additional debt

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[23] Johnson to F. C. White, January 3, 1838, in "Autobiography."

. . . will yield a permanent equivalent for the interest of the debt?"[24] This position was bound up and consistent with his stand on the usefulness of maintaining public debt as a revolving source of capital funds.

Johnson consciously recognized a need for government aid to internal improvements, usury laws and certain limited bank regulations but, at the same time, expressed in other areas the most extreme *laissez-faire* views, calling for the discontinuance of almost every form of public inspection and licensing. He criticized even the licensing of physicians, feeling that the best protection lay in the traditional doctrine of buyer beware. In this he went beyond the stand of his mentor, Adam Smith. His *laissez-faire* views carried over into his advocacy of unrestricted entry into all fields of business enterprise. He maintained that the right to incorporate should be open to all on the same terms.

Let us turn now to Johnson's ideas on the corporate form of industrial organization. He was among the pioneers in stressing the importance of the corporation as a device for furthering the economic and social progress of the nation. The corporation with its privileges of limited liability and continuity made possible the combining of the relatively small resources and efforts of many persons; that is, it "extends the sphere of personal efficiency, the great reservoir of all efficiency." Since there were few massive, private fortunes, the state in the absence of corporate associations would have had too few large manufacturing establishments and would have accomplished little in banking, insurance and railroads. Further, since the ownership was in a multitude of persons rather than in great, monopolistic capitalists, the corporations yielded the advantage of large capital without the supposed disadvantages of great private fortunes. Corporations therefore were "artificial pecuniary giants, without the dangers that might be consequent in the existence of natural giants."

[24] "The Alternative of Continuing Our State Debt or Liquidating It by Taxation," consolidated from two articles published in 1834 and 1842 and reprinted in *A Guide,* pp. 253-254.

Johnson early supported federal grants of public lands to the states for public works for common benefit, as being constitutional and as being exempt from "the excesses which have been apprehended from making such improvements by drafts on the public treasury." ("The Constitutional Power of Congress over Public Improvements," 1851; reprinted in *A Guide* (pp. 82-83). This became the federal policy for aiding the construction of western railroads in the 1850's.

Unfortunately, the politicians insisted that the protection of the interests of the community required that corporations be created sparingly, and thus grew up the system of monopolies through the grant of special acts or charters of incorporation. It was argued that capitalists would not invest in corporate enterprises, notably banks, unless they had a monopoly right, for they feared that corporations could not survive under "unrestricted competition." The result was bribery and corruption of the legislature for charters. The remedy lay, Johnson wrote in 1845, not in suppressing corporations but in allowing them under general acts which specify the conditions and regulations under which any group of people could secure the privileges of incorporation. In other words, the monopoly feature would be eliminated by making "all privileges granted by law to any one association of men . . . common to every other set of men who choose to associate and possess them." "If a railroad route shall then be deemed capable of sustaining two establishments, an opposition will be produced, and the community will enjoy the benefits of competition . . . at half the present charges, and perhaps twice the speed."[25]

Specifically he urged for example that the state allow a competing railroad from Utica to Schenectady. Johnson contended that thereby Utica would enjoy not only cheaper and faster travel but also better mail service. He said, "We now receive no night mail from Albany, though since the meeting of the legislature, we have been favored with a night train of cars." If there were two lines "we should doubtless enjoy a night mail; but the absence of competition places the post office department so much at the mercy of railroads, that . . . [its] utility . . . is almost destroyed." He added, that "even our cheap postage system is endangered by the blind avarice of our existing railroads," and nothing would contribute more "to the continuance of the present letter rates than competing roads."[26]

This fight for a general incorporation act in which Johnson was a prominent leader was crowned with success. In 1846, New York pioneered by providing in its new constitution for a broad general

[25] "Reasons for Calling a Convention to Review the Existing Constitution," 1845; "The Delegates Which Should be Selected to Form the State Constitution," 1845; "Advantages and Disadvantages of Private Corporations, 1850; reprinted in *A Guide,* pp. 163-164, 169, 210, 216.

[26] Johnson to J. A. Spencer, January 17, April 6, 1846, in Historical Society of Pennsylvania.

incorporation act, a provision that Johnson saluted as "the greatest triumph that our American experiment of equal right, has ever achieved in practical results."[27]

One of the most appealing aspects of Johnson's character was his ability to be a strong advocate of a given program or doctrine while at the same time recognizing the possible weaknesses or limitations of such. Thus he believed that the advantages of corporations far outweighed their disadvantages, but this did not mean that the latter should be ignored.

There is a tendency in our own day to assume that the divorce of ownership and control in large corporations is a problem of the twentieth century. But over a hundred years ago, Johnson wrote that "the most inveterate danger that attends corporations" was the "natural antagonism between the interest of a corporation and the interest of its managers." In equally modern tones he pointed out the ineffectiveness of existing laws enacted in the name of corporate democracy. Thus "the power to vote by proxy enures . . . more to the perpetuation of an existing board of directors than to its insecurity." He proposed what in effect was a system of cumulative voting for directors. The ownership of a given amount of stock, say one twelfth of the capital, would constitute the owner, a director, and several stockholders who together owned an equal share would also choose a director.[28]

Another area in which Johnson pioneered was in the use of census statistics to describe empirically the course of population growth. In this field he was thoroughly the man of the new world. The pessimistic predictions of Malthus were not for him. From his empirical studies, he believed that he had "discovered a relation between the increase of any given set of men in society, and the space which they occupied on the earth's surface; those who occupied the largest space, increasing most in population while those who occupied the smallest space, increasing least."[29] In reaching this

[27] "Legislative History of Corporations in the State of New York: Or, The Progress of Liberal Sentiments," 1850; reprinted in *The Government and the Economy, 1783-1861*, ed. Carter Goodrich (Indianapolis: Bobbs-Merrill, 1967) p. 403. See also the discussion of Johnson's views on the corporation in Joseph Dorfman, *The Economic Mind in American Civilization*, 5 volumes (New York: The Viking Press, 1946-1959) II, pp. 621-622.

[28] "Advantages and Disadvantages of Private Corporations," 1850; reprinted in *A Guide*, pp. 216-217.

[29] "Autobiography."

conclusion he postulated a natural maximum to population density. If this ratio were surpassed, the number of deaths would exceed the number of births or immigrants, and population would decline to its natural maximum level.

Interestingly while denying the ratios of Malthus, that population increases geometrically but food supply arithmetically—he offered no hypothesis as to the causal factors that made fecundity increase inversely to density of population. It is difficult to believe that a mind of such originality and intellectual curiosity did not speculate on why this relationship between space and fecundity existed. If he did indeed engage in such speculation, then perhaps the clue to his unwillingness to put his ideas on paper lies in his view that Malthus would probably find that his conclusions had been obtained by resorting to "the agency of miracles rather than sound scientific reasoning."[30]

Johnson's demographic work is typical of his strong preference for empirical methods in all areas of economic inquiry. On the other side of this coin, we find a recurring distrust of armchair speculation. As he strikingly put it there was a need to differentiate "the tinsel of indolent conjecture from the gold of laborious observation." The relative importance of accurate premises he illustrated as follows: "When a tradesman brings me an account which asserts that I am his debtor, say a hundred dollars, I may be sure that the aggregate is fairly stated, for few men are careless enough to commit an error in addition. The items of the bill may require examination. So, when a logician tells me the conclusion to which he is arrived by any process of argumentation, I seldom care to investigate his arguments. I assume that he will not make a false deduction, anymore than the tradesman will make a false addition. The part which requires examination is the logician's premises;—those are like the tradesman's items. Most people, however, waste all their attention on a logician's arguments, and let him assume what premises he pleases. This is analogous to permitting a tradesman to charge you without restraint, provided he will be honest in his addition of the items."[31]

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[30] "Thoughts on Population," *The Belles-Lettres Repository,* September 1820, p. 358.

[31] *A Treatise on Language,* edited with a critical essay on his philosophy of language, by David Rynin (Berkeley and Los Angeles: University of California Press, 1947) pp. 111, 190.

In dealing with the thinking of a man of such varied and wide ranging interests as Johnson, a summation is desirable in order to obtain a coherent view of his ideas. Let us refer again to his roots outside the Anglo-American dominant culture. Certainly this contributed greatly to his sensitivity to changing events, to his avid intellectual curiosity and to his objectivity when writing of conditions and proposals current in the America of his day. To his credit was his independence in stands on monetary, banking and fiscal policy matters. In a number of instances these positions were sharply opposed intially to those of most of the members of the financial community. Yet he stubbornly persisted and was able on occasion to see his heretofore heretical views become the basis for legislation and policy.

A few of Johnson's most advanced ideas were not appreciated until after the first quarter of the twentieth century (especially those which today are popularly called Keynesian). Wesley C. Mitchell, the pioneer in business cycle theory, in discussing Civil War monetary phenomena, characterized him as the earliest of the very small group of writers "who studied the situation with care" and "did not allow their conclusions to be controlled by preconceived theories."[32] Certainly the same could be said of Johnson's insights into the nature and problem of control of the giant corporations, his demographic studies and his ideas of the role of government in economic development.

Johnson, although an outsider by background, completely embraced the lusty optimistic view which dominated all stratas of society in his adopted land. Throughout his writing appears the note that the opportunity for unlimited progress is at hand if only the people have sense to seize it. Missing is the notion that parsimony is to be praised and hedonistic consumption is to be frowned upon. But here again, he seemed more the man of the twentieth century, in

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[32] *History of the Greenbacks with Special Reference to the Economic Consequences of Their Issue: 1862-65.* (Chicago: University of Chicago Press, 1903) p. 189.

Mitchell was particularly referring to Johnson's *The Advanced Value of Gold, Suspended Specie Payment, Legal-Tender Notes, Taxation and National Debt, Investigated Impartially* (1862), which is reprinted below as Supplement no. 1.

Mitchell strongly approved of Johnson's sharp criticism of the quantity theory of money, at least as usually presented.

declaring that consumption, rather than tending to impoverish a nation, in fact tends to enrich it with additional production.[33]

In a tribute to Johnson, Henry Schoolcraft, the pioneer ethnologist and a contemporary, described him as "a gentleman of wealth, intelligence, and enterprise."[34] To this we may add that he was a spirit untrammelled yet practical, conservative in the sense that he celebrated the accomplishments of the society which had been built in this new land, but too clear headed not to see also its failings; and finally the possessor of that rare gift which most gains any thinker a place in history, an original imagination with the strength and character to advocate and defend his insights for the benefit of mankind.

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December 1967

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[33] Commenting on the destruction of Moscow by the retreating Russians during the Napoleonic invasion, he daringly argued that while it is true that the action "consumed an almost incalculable quantity of capital, yet from what we know man can perform when greatly induced . . . even this unparallelled waste of desired articles may give rise to such increased exertions as to make it a means of increasing eventually the wealth of that empire." (*Value and Capital*, p. 7.)

[34] *Personal Memoirs of a Residence of Thirty Years with the Indian Tribes on the American Frontiers* (Philadelphia: Lippincott, Grambo, 1851) p. 18. Schoolcraft dedicated the book to Johnson.

AN INQUIRY

INTO THE

NATURE OF VALUE AND OF CAPITAL,

AND INTO THE

OPERATION OF GOVERNMENT LOANS,

BANKING INSTITUTIONS,

AND

PRIVATE CREDIT.

BY ALEXANDER B. JOHNSON.

NEW-YORK

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CONTENTS.

Page
Preliminary Essay, - - - - - 1
A Public Loan increases the national capital to the amount of the Loan, - - - - - 16
Government Loans are, in fact, Loans from Government to the nation, - - - - - 17
What Capital is, - - - - - ib.
Banks increase the National Capital, - - ib.
An article of capital must be an object of Man's desire, 18
Government Securities are desired for the Specie they produce, - - - - - - 19
Bank-notes are desired for the specie which they represent, 20
The amount in circulation may, many times, exceed the whole amount of gold and silver in the nation, ib.
Notes of individuals are objects of desire, and possess the nature of capital, - - - - 21
They increase the capital of a nation, - - ib.
The notes of individuals may exceed in amount not only the Specie of a Nation, but also the bank-notes of the nation, - - - - - - ib.
Bank-notes might continue objects of desire, even though specie should be refused for them at the banks, - 22
The extent to which our present banking system (of giving specie for their notes) can be extended, will have some reference to the amount of specie in the nation, - 24
An article may lose its character as capital, - 25
Skill and Labour, create capital, - - - ib.
Capital is perishable. - - - 26
An increase of capital is desirable, - - ib.
The business of life is to procure the objects of desire, ib.
We distinguish nations by the quantity of capital they possess, - - - - - 27
A great portion of this capital is created by skill and labour, - - - - - ib.
Man's gratification will be restricted only by his means, ib.
His desires increase with his means. - - 28
His pleasure depends upon the number of desires he can gratify, - - - - - - ib.

CONTENTS.

Page

His desires do not so readily decrease with the decrement of his means, - - - - - 29
He will be unhappy in proportion to the number of desires which he cannot gratify, - - - - - - ib.
Possessing capital enables us to increase our possessions, 30
A man seldom gets rich by his individual labour, - ib.
Our desires cause the production of capital, - 31
Specie the most used in exchanges, - - ib.
Of Value, - - - - - - ib.
The quantity of every article possessed by man, depends upon the difficulty or facility of its procurement, 32
The exchangeable value of articles is ultimately governed by the relative difficulty of their procurement, - 33
The facility with which an article is procurable, dictates its use, - - - - - - 34
A surplus can never long exist, - - - 35
An article is scarce or plenty in proportion as the quantity in market either exceeds or falls short of the usual supply, - - - - - ib.
An insufficiency of quantity in any article, cannot long exist, - - - - - 37
Dear and Cheap, - - - - 38
The quantity of capital in a nation is distinct from the amount of it, - - - - - - 40
Commerce regulates the rates of Exchanges, - 41
The easy procurement of an article in any one nation, benefits every other country, - - - ib.
An individual may increase his wealth without increasing his possessions, - - - - 43
An increased facility in the procurement of any article, benefits the consumers, - - - - - ib.
A depreciation in price, not arising from an increased facility of production, must be but temporary, - 44
The depreciation of an article below its true relative value, is generally followed by its appreciation above its true relative value, - - - 45
An increased difficulty in the procurement of an article, injures the consumers, without benefitting the producers, ib.
An event that should increase the facility of procuring all the objects of desire, would be a universal benefit;—one that should increase the difficulty of their procurement, would be a universal injury, - - - 46
An increased facility in the production of any article, not only makes it procurable for less capital, but also makes it exist in greater plenty, - - - 47
It would be injurious to men of stationary fortunes, - 48

CONTENTS.

Page

An increased difficulty in the procurement of any article, not only makes it exchangeable for more capital, but also makes it exist in greater scarcity, - - ib.

General Conclusions, - - - - 49

Capital, real and artificial, - - - ib.

The quantity of Real Capital produced in a nation, will bear some proportion to the number of its inhabitants, 50

Artificial Capital, - - - - - ib.

Gold and silver are no greater representatives of other articles, than other articles are representatives of them, 51

Machinery, - - - - - ib.

Machinery increases the productions of a nation, - 52

The suspension of any accustomed use, would produce a surplus of labour in this country, the same as in every other country, - - - - - ib.

War increases the price of labour, - - - 54

A rise in the price of labour, produced by an insufficiency of quantity to supply the habitual uses, must also cause a rise in price of each of those articles that the labour was used in producing, - - - - 55

Governments can seldom abstract, without compulsion, the quantity of labour they desire, - - ib.

A rise in the price of Labour, causes an advance in the price of every article produced by labour, - 56

War produces a rise in the value of all articles, except specie, - - - - - 57

Were it not for the representative government could not abstract much specie from market, - - 59

Any new uses for specie, that could not be answered by its representative, would increase its value in market, 60

A law to prevent the farther production of these representatives, would cause specie to appreciate, on any increase in the demand for it, - - - - ib.

The price at which government is enabled to obtain specie, (where a representative, to answer the purpose, can be produced) is regulated by the price paid to the banks for its production, - - - - 61

Government Loans cause the creation of specie, - 62

If the specie, which a loan causes the production of, become surplus, it will soon cease from existing, - ib.

The quantity of specie which a new loan will cause the production of, depends upon the existence or non-existence of a surplus at the time the loan is contracted for, - 63

Government Securities increase in value after their creation, - - - - - ib.

CONTENTS.

Page

Representative specie cannot exist in a surplus for any great length of time, - - - - - 65

War prevents the production of capital, - - 66

Soldiers and Sailors are consumers of capital, - ib.

The disadvantages arising from this prevention of gain, and this actual loss, are made up to the nation, if the expenses of the war are borne by the creation of government securities, - - - - 67

The Labour abstracted by government, is not always unproductive - - - - - 68

An increase of capital by government securities, differs from an increase by gold and silver, on account of the taxes the securities give birth to, - - 69

National securities are in their operation like bank-notes, 70

No increase of capital can be caused in a nation, without each individual contributing towards its production, 72

The borrowers from banks, ought not to be the only persons who contribute to the support of the specie borrowed, because others are equally benefitted, - - - 73

Profit and loss account, on one thousand dollars, borrowed from the Merchants' bank, April 16, and refunded the following 16th June, - - - - 75

The quantity of capital in a nation, concerns each one of the inhabitants, - - - - 77

When the proceeds of taxes are employed within the nation where they are collected, the national capital is neither increased nor diminished by their operation, - 78

Taxes affect individual possessions, - - 79

Government Securities are of small advantage to any but the possessors, if they are not used as a trading capital, 80

Nations are not impoverished by war, when they defray the expenses by creating public securities, - 82

The war would injure each individual to the amount of his tax, - - - - - - . ib.

However much I am benefitted by the capital which the government securities create, I should be more benefitted, were it not for the tax they require me to pay, 83

A gratuitous issue of government securities would be beneficial, if individuals were taxed for their support only in proportion to the benefit they receive from them, 84

A National Debt is paid off, not by the introduction of any new capital, but by an extinction of capital, equal to the sum paid off, - - - - - 87

The possessions of each individual will be diminished to an amount equal to his tax, - - - ib.

CONTENTS.

Page

The holders of government securities are not benefitted by this liquidation, - - - - 88

To liquidate the National Debt, is to diminish the National capital equal to the amount liquidated, - 89

A sinking fund liquidates the national debt, without increasing the tax of individuals, - - - 91

Taxes paid for the support of Securities, in the coffers of a sinking fund, are paid without the possibility of receiving any equivalent from their employ, - - ib.

If a depreciation in the exchangeable value of specie, produce a depreciation in the rate of interest, the holders of specie will suffer a double loss; first, in the diminution of the quantity of their interest, and secondly, in the depreciation of the value of the article which composes that quantity, - - - 93

If an appreciation in the exchangeable value of specie, produce a rise in the rate of interest, the holders of specie will receive a double benefit;—first, in the increase of the quantity of their interest money, and secondly, in the appreciation of the specie which composes that quantity, - - - - - - 94

The rate of interest is governed by the profit that can be made in the employ of capital, - - - 95

Interest is not a premium paid exclusively for specie, but for capital generally, be it specie or any other article, ib.

If the rate of interest were not regulated by law, it would be regulated, first, by the productiveness of capital; secondly, by the price of individual exertions, - 97

The rate of interest may fall, from the habits of a people becoming less industrious, and it may also rise from their habits becoming more industrious, - 98

The quantity of capital in market, to be loaned, will affect the rate of interest, - - - - ib.

The tendency of banks is to reduce the rate of interest to the amount charged by them, and no augmentation of banking institutions can reduce it lower, without they commence the reduction, - - - 99

Although he quantity of bank-notes is limited, which can be put into circulation at any present period, yet the amount which may be put into circulation, at any future period, is perhaps beyond the power of reasonable conjecture, - - - - - 101

Before there can exist a surplus quantity of bank capital, the profits of every known use to which it can be applied, must be reduced to a standard, governed by the rate of discount, and by the amount, considered by individuals,

Page

a recompense for their personal agency in applying the capital, - - - - 103

A Reduction in the rate of discount, will increase the bank-notes that can be supported in circulation, and also increase the industry of a nation, - - - 104

A reduction of interest injures those only, who employ no capital but their own, - - - - 106

A reduction of bank dividends, occasioned by a diminution of the rate of interest, would not lower the price of stock in market, - - - - 106

Before there can exist a surplus quantity of bank capital, the profits of banking, (like that of every other pursuit) must be reduced to a standard, governed by the rate of discount, and by the amount considered by individuals a recompense for being bankers, - - - 107

A reduction of dividend may be effected by a depreciation of the rate of discount, or by an insufficiency of borrowers; but no reduction of dividend, occasioned by a depreciation of the rate of discount will reduce the price of stock, and therefore arrest the increase of banking. This can alone be effected by a reduction of the dividend, when produced by an insufficiency of borrowers, - 109

Banks, to be trust-worthy, must possess a capital of their own, - - - - - - 111

So long as the losses of a bank do not exceed the amount of its capital, the public creditors are secure, - - 112

Bank-notes are insecure, in proportion as the emission exceeds the capital - - - - 115

PRELIMINARY ESSAY.

SO many important inquiries have been instituted into the nature of value that the subject would not have been adverted to in this production if it could have been separated with propriety from an investigation of capital. If our theory agrees with any other, it is with that of Professor Smith. He makes the quantity of labour expended in the production of any article the standard of its value, and the regulator of the quantity that must be given in its exchanges. We have made the value of all articles to depend on the facility or difficulty of their production, and the rate of exchanges between any two of them to be ultimately governed by the relative difficulty of their production. This is perhaps merely stating the same principle, but in different terms. The difficulty or facility of production has certainly reference to a greater or less quantity of labour.

The Earl of Lauderdale, who wrote after Mr. Smith, makes the value of all desired articles to depend on their existing in a state of scarcity.

If what we have written on this subject* be correct, it will appear, that to say an article exists in great scarcity is merely to say that it is procurable with great difficulty, and therefore a theory which founds the nature of value on the scarcity in which mankind possess different articles, founds it on the effect produced by the difficulty experienced in their production.

To say that one article is more valuable than another because it is more scarce, may be, no doubt, very correct, and will be consonant to the theory of the Earl of Lauderdale; to say that it is more valuable than this other, because it requires more labour to produce it, may be no doubt also correct, and will be consonant to the theory of Mr. Smith. There will be no important difference in these conclusions if an article that exists in scarcity is always procurable with more labour than another

* The quantity of every article possessed by man depends upon the difficulty or facility of its production.

which exists in a greater quantity; and if an article that is procurable with much labour is always possessed by us in greater scarcity than another which is procurable with less labour. A combination similar to this which we have now supposed, will also be found the true operation of practice, because the quantity which we possess of every article is governed by the difficulty or facility of its production.

In his criticism on Mr. Smith, the Earl of Lauderdale does not appear to have considered this fact; he treats of the scarcity of an article as if it was a property which had no reference to our powers of production, and as if it operated to produce value by debarring us from enjoying the full quantity we desire to enjoy. We have on the contrary, endeavoured to show that the quantity of any article we are really solicitous to enjoy, is that quantity which we have been in the habit of enjoying, and therefore that its value cannot be caused by our being debarred, through its scarceness, from enjoying more of it. That we do not possess more of any article, is owing to the difficulty experienced in its production: that we desire what we do possess is owing to our being habituated to its enjoyment; that we purchase it at the market price is owing to our being unable to purchase it on lower terms, and the reason why we are enabled to purchase it on lower terms is the difficulty experienced in its production. This difficulty of production regulates, therefore, not only the price of all articles, but also the quantities in which we possess them. The most peculiar feature in our inquiry is the view we have taken of government loans and banking institutions.

In various theories that have been invented on the subject of capital, many of them invaluable for the suggestions they contain, certain articles, such as specie and bank notes are spoken of as if they were desired only on account of the uses they perform in commercial operations.

The tenour of these writings do not seem to admit that any articles are desired for their own qualities, excepting those we use as sustenance, as clothing, as shelter, and as necessary conveniencies.

The discovery of a rich diamond mine would not be considered by them advantageous, excepting it were for the more substantial articles these diamonds would be exchanged for in some foreign nation. The gratification afforded by the wearing of diamonds by the finders would not be admitted as a reasonable argument in favour of their discovery, especially if their extraction from the mine consumed labour that had previously been employed in the production of houses, of wheat, and of other articles of sustenance and convenience. The same unim-

portance appears by these writings attached to gold, to silver, and to bank notes. No benefit is spoken of as emanating from them, but the benefit is spoken of as emanating from the commercial effects they produce from the articles of sustenance, of clothing, and of palpable convenience that they are the means of producing. In various other theories, however, of earlier date, gold and silver, or as they are there called the precious metals, are held in greater estimation, and indeed all other articles appear to be desirable only because they will produce these metals in exchange. There is still another division of capital both in ancient and modern theories, into those articles which are considered necessary to the common conveniencies of life, and into those which are not considered necessary. Of the kind first mentioned, are wheat and leather, and of the kind last mentioned are costly lace and diamonds.

The question is, whether that trade is not disadvantageous which exports these more necessary articles for the purpose of receiving in exchange these less necessary ones. And also, whether it is not better that the industry of a nation should be employed about the production of the first, in preference to the production of the latter, when the production of either should depend upon the balance of advantages.

There is then another question existing, (and we shall advert to no more) it is, whether a parsimony in the consumption of the articles of our desire is not more beneficial than a more liberal enjoyment of them.

It happens frequently with theorists, that they do not describe any actual operation, but merely state that which they think ought to be practised. Such a theory is then barely the opinion of an individual that certain effects may be produced by certain causes, and that these effects will tend to our greater advantage than the accustomed and well known practises of the nation.

It may also be true, but if we anticipate the future from the experience of the past, we shall find sufficient reason to question the ability of the most knowing, in his forebodings of what consequences will follow from any untried event. There is no connexion visible to man, between any cause and its effect, and if we state any untried measure, and detail the operations we expect it to perform, it is because we think there is a resemblance between this measure and some other that we have seen in practice, and therefore judge from this similarity of causes that the resembling measure must produce a resembling effect. But to deal candidly, perhaps every man would acknowledge that no expected result ever followed exactly as he had anticipated even in his familiar transactions. If so, how much less are

his conclusions to be relied on when he derives them from mea sures yet unknown to practice.

The various opinions we have spoken of as existing on the different articles which compose capital, have all been given at different periods for the government of man's conduct towards them.

It appeared ridiculous to several of these authors that man should employ himself about the production of articles which in the eye of philosophy were below his regard;—of articles which were necessary neither to his support, to his shelter, nor to his palpable convenience. In practice, however, the true test of all theories, we find that it is more easy to point out objects that are desired, than it is to account for the cause of their being thus desired. To say that a human being should consider a diamond necessary to his happiness, and to account for his desire by saying that such stones shine very brilliantly, appears to an abstracted reasoner as stamping the person having such desires, with a character of frivolity beyond what he can think mankind capable of. The fact, nevertheless, is certain that diamonds are an object of our desire, and though the cause of this desire may be attributed to various properties which they possess, they are all very immaterial to the effect produced, and of which we speak.

We have attempted to show, though very briefly, in the following work, that our great source of pleasure is the enjoyment of those objects we desire. Whether it is more consistent with wisdom to desire certain articles, such as wheat and woollens to gold and laces, has not been agitated. We have contented ourselves with stating what is the practice, and not what ought to be.

In practice it certainly is the concernment of each individual to employ his industry in procuring those articles for which he has a desire, whether it be for lace or leather, for wheat or gold—nor can it well be conceived why my desires for one article should not be gratified as well as those of my neighbour for any other.

We have said that it has been agitated whether parsimony in the consumption of the articles of our desire is not more beneficial than a more liberal enjoyment of them. Thus, whether an illumination of a city which should consume oil, candles, and other articles to the amount we will say of five thousand dollars would not be a loss to the nation equal to the capital thus consumed.

By a careful review of the operations of man in society, we shall perceive a constant exertion to counteract the evil tendency which any measure produces, and it is therefore probable

that an increased consumption gives rise to an increased production sufficient not only to compensate for the consumption, but also for to outweigh it.

The quantity of capital produced by a single individual in one period of the world differs most widely from the quantity produced at another period. It is also impossible to foresee or even conjecture the increased production that the ingenuity of man may in time cause individuals to produce. This ingenuity must however be stimulated, and it may readily be conceived that if man had been formed without the power of consuming capital, and in every other respect just as he now is, that the quantity of capital he would have possessed at this day (even admitting that all he produced should have been imperishable) would be a less quantity than that which we now find in his possession. If this be so, or even if the consumption of capital is at all a stimulus to its production, we may conclude that consumption does not necessarily tend to impoverish a nation, but on the contrary, to enrich it with additional productions.

In Russia, the late destruction of Moscow must have consumed an almost incalculable quantity of capital, yet from what we know man can perform when greatly induced, we may conclude that even this unparalleled waste of desired articles may give rise to such increased exertions as to make it a means of increasing eventually the wealth of that empire.

Sumptuary laws have been adopted in many countries, and may, it is true, prevent the consumption of capital, but they also prevent its production by removing that stimulus to man's exertions which may be said to regulate the extent of his performances.

To inquire whether that is a profitable branch of national trade that exports the articles of sustenance for to receive in exchange silks and laces, is perhaps an inquiry arising from a wrong view of the nature of capital. The great employment of man is to procure such objects as he desires. In a state of uncultivated society the whole exertions of the tribe or nation do no more than produce some few articles of absolute necessity; in a state of refinement and civilization the exertion of but a very few are sufficient to supply the whole with these same articles, and in a greater quantity. It may be now inquired why this change? The individuals at this day possess no greater natural powers than at the former period—then why is the result of their efforts so widely different? The answer is because of their superior exertions. A motive will then be wanting for their superior exertions, and it may be found in their solicitude now to obtain various articles which at the period first spoken of were entirely unknown to them. The exertions

of man will always be governed by the end to be attained. When he knew no greater enjoyment than that derived from a scanty sustenance, he proportioned his efforts to its attainment, and they were accordingly as feeble as the object was small.

In the progress of this work we have shown that man is never without desires, and that as soon as he is enabled to obtain the object of his present solicitude, some desire beyond his means of gratification will immediately supply its place. This might be urged to show that he could never want a stimulus to his exertions. In all probability he never did want one, and hence the universal tendency of all nations to a state of greater refinement.

The progress of improvement is, however, slow, where example does not point out the way.

In a nation where desires are known far beyond those created by the necessities of nature, the ungratified desires of most individuals tend more to give a stimulus to those exertions which produce capital than the desires of those individuals do who live in a rude state of nature. In the refined nations, each individual beholds others possessing many objects of desire beyond his capacity of obtainment ;—and his ungratified desires (that is, those which serve as a stimulus to his exertions) go generally to the obtainment of some objects similar to them which he observes in the possession of his neighbours.

In the rude state we before adverted to, each individual will also have his ungratified desires to serve as a stimulus to his actions, but they will not always be for the possession of capital, they will be for distinction in battle, in the chase, or some other object distinct from the accumulation of capital. The reason then, why man produces more capital in a nation which we call refined, than he does in another which we call uncivilized, is because he makes greater exertions of his labour and ingenuity, and the reason why he makes greater exertions is, because he knows more wants in the refined state of society than he previously did in that which we call less refined.

We will suppose that a nation shall have arrived to a state of great refinement, and that its Legislator shall observe with regret the small number of inhabitants who employ themselves in the production of those articles which he shall think of real utility, compared with the number of those who employ themselves in the production of less important articles ; and that with this impression he shall prohibit such less important articles from being produced, and also prohibit any exchanges with foreign nations of the articles of real utility for any others not equally necessary to the support or palpable conveniences of life.—He shall adopt this policy from an impression that the

exertions of the nation will not be diminished by its operation, and that therefore the production of necessary articles will be so multiplied as to place them within the reach of his meanest subject :—The result will however, deceive his expectations. The whole object of the nation will now be to acquire so much of the articles they are permitted to enjoy, as will satisfy their desires for them. Their exertions will therefore be proportioned to this end.

We have said that the quantity of these articles they have been in the habit of enjoying, was furnished by the exertion of but a small portion of the inhabitants. The nation will have no known and desired uses for any quantity over what they have been accustomed to possess, and therefore, their solicitude will be directed to the attainment of this quantity, and to no more. The various other productions will cease from being produced, and no equivalent will be given to the nation by any increase in the quantity of those articles, for the increase of which the new policy was introduced. The question, therefore, for a legislator to decide, is not whether the labour employed in the production of silks, laces, and lawns shall be employed in that way, or in the production of wheat, leather, and blankets; but whether these silks, laces, and lawns, shall cease from being produced, without any increase being made in consequence thereof, in the production of those other articles. It is an error that supposes the production of one article necessarily diminishes the production of another whose uses it does not go to supply.

A nation in the first century of its existence employs its industry in producing articles of sustenance. In the second century it adds, we will say, to its productions, the articles of clothing. In the third century, fixed habitations. In the fourth, ornaments and domesticated animals, and in this progression, continues to advance until we behold all those wonders of art and ingenuity which man at length gives to society. These progressive improvements are not made at the expense of each other, but by making industry more productive through the means of an increased exertion of labour and ingenuity. A new production that does not go to supplant any other, (by filling the office this other had been desired for) does not necessarily cause a diminution in the production of any article, but on the contrary, may be considered as a new acquisition of so much additional capital.

If the producers of it are taken from a class who formerly furnished any desired articles, their place will be soon supplied by the increased exertions of the remainder. The causes which produce these changes in our exertions are not con-

certed amongst individuals, but operate by their own tendency. An insufficient supply of any article occasioned by many individuals deserting its production, causes an insufficiency in the market for the ordinary demand, and a consequent advance in price. This advance is an inducement for an increased exertion by them who still remain its producers, and it also occasions many others to become producers of it who were not so previously. The required quantity is at length obtained, and the desertion of its former producers does not eventually diminish it.

In what we said of the legislator, whom we made to restrict the production of capital to such articles as he thought necessary, we attempted to show that the production of those articles would not be thereby increased, and that the only effect of the measure would be to prevent the production of the articles he restricted, without increasing the production of the articles he permitted. It must be, however, admitted, that it is impossible to foresee what the natural love of man for pre-eminence would prompt him to effect even under such circumstances.

It is possible, that if a nation accustomed to great exertions were suddenly restricted to the production of wheat, oxen, and leather, that their exertions would not expire, but would be employed in the accumulation of vast quantities of these articles, beyond any present known enjoyment of them.

The desire which men have for many articles met with in improved society, does not, perhaps, arise from any actual pleasure derived through the medium of their senses, but rather from a pleasure of the imagination. Our desires for the various articles of food, for fire, for down beds, for soft carpets, for warm clothing, for horses and carriages, may all be traced to some pleasurable sensation these articles are the means of producing, and perhaps would all be used, if attainable, by an individual situated in some part of the globe, remote from the possible view of any human observer; but our desires for diamonds, for laces, for gold utensils in preference to silver, to be drawn by four horses in preference to two, by six in preference to four, can hardly be traced to any pleasurable sensation they are the means of producing, and probably they would all exist unused, however easily attainable, by an individual situated the same as we have supposed the former individual. If then society is necessary to make these latter objects yield us pleasure, it must be to some other source that we must search for the cause of this pleasure, and not to their operation on our senses.

For whatever wise purpose, (immaterial however, to the effect of which we speak) every man appears to be possessed of a strong natural ambition, and frequently of a restless desire to be superior to those who compose the circle in which he moves in society. The contention of Kings, down to the depravity of

felons, (to speak of two extremes) may perhaps spring from this principle; for there is no action, however noble, or however base, but a superior facility in the exercise of it will often be courted, when the attainment shall exalt the possessor in the opinion of his associates.

It is perhaps this, which makes a person so generally conform his conduct to the habits of his companions, and therefore makes the choice of society a matter of such great importance.—With the generality of mankind, however, their ambition finds employment in the accumulation of capital. The greater that portion of the inhabitants is of any nation, who make such accumulations the sole end of their ambition, the greater will be the respect paid to wealth. In France, it is less the object of primary ambition than it is in England, and perhaps in the United States it is more frequently the object of primary ambition than it is in England. In the first nation, therefore, there is less respect paid to wealth than in the second, and in the United States, perhaps, still more respect paid to it than in either.

It is a saying frequently heard, that there is no disgrace in being poor. This may no doubt be true of many persons thus situated, but where the accumulation of capital is very generally the primary object of ambition, poverty will be more or less considered as evincing a want of capacity, or some other natural inferiority in the poorer man compared to that possessed by the one more wealthy, especially when the persons compared were once on an equality.

Men engaged in the pursuit of wealth may be considered like rival authors or painters, the event is that by which we judge of their relative skill, and they are prized accordingly. This principle is also very perceptible in many situations of life. A village trader may not feel it as any detraction from his own merits when he is informed that a person in the city engaged in the same pursuit, has made a large fortune in the time he has been making but a bare subsistence. He will spare himself any unpleasant feelings, from the contrast, by supposing that it should be justly attributed to the circumstance of superior advantages of place, and not of talents. But if this superior success has befallen to a person in his own village, he will not have the same excuse for not being equally prosperous, and will in all probability feel sensations of uneasine s whenever the topic is adverted to, from a consciousness that inferences to his disadvantage will be drawn in the minds of others when he is thus compared with the person that he was formerly on a level with. Here is a person, therefore, who feels his poverty as a disgrace. He at least fears that others will so think

it, and whenever the subject is introduced, will endeavour to obviate unfavourable impressions by accounting for the event in some way that may show it has been voluntary on his part, by his disdaining to employ those means which the other person resorted to. Such may also be frequently the truth, but there would be no necessity of his so pertinaciously relating it, if he did not feel that it was necessary to his own character. There is perhaps more justness in the favourable impression entertained for the rich, than at the first view we are willing to allow.

It is a common observation, that the bare knowledge of any stranger possessing wealth is a great recommendation to him, even with those who know nothing farther concerning him, and who cannot possibly expect to be in any shape benefitted by his possessions.

In a nation where the accumulation of wealth is the primary object of general ambition, it will follow that those means must be approved of, which are generally pursued in its accumulation, and that those must be held in disesteem which have a contrary tendency.

We accordingly find that economy in expenses ; application in business ; punctuality in engagements, and the peculiar species of knowledge necessary in commercial pursuits, are all admired qualities, and insure to the possessor a degree of general respect. A contrary conduct does in like manner create an unfavourable impression against him who practices it. His actions are not those which others admire, and therefore his conduct meets with a degree of general disapprobation. It is from this source that the knowledge of a stranger possessing wealth operates as a recommendation to him. The possession of the object sought is considered as a pretty fair evidence of his also possessing those esteemed qualities necessary to its attainment, and when no circumstances are known to the contrary, he frequently receives all the respect and attention which the actual knowledge of his possessing them would ensure him. The knowledge of a stranger possessing no wealth does on the contrary operate to his disadvantage. If we know nothing of him but his poverty, and judge him by the same criterion that we did the rich man, we shall suppose it probable that he is not in the practice of those actions which we so much approve of, and that on the contrary he is given to those opposite practices of which we so much disapprove, and we shall accordingly, frequently view him with the disapprobation that the actual possession of those bad qualities would ensure him.

We have said that there is a natural desire in each individual to become superior to those with whom he is at pre-

sent on an equality. This desire is that impulse to which we have given the name of ambition.

We have also said, that in a commercial nation this ambition will most generally be exerted in the accumulation of capital. Wealth may therefore be considered as the prize for which many men are contending, and the amount acquired by each, as the criterion by which their relative skill is determined.

In the progress of the following work it will be shown, that the articles of capital are valued in proportion to the difficulty of their production, and accordingly, if I possess an article of too difficult a production for others, my self-love will feel a gratification from this result of my endeavours, indicating some superiority in me over them that have been engaged in a similar pursuit. It is perhaps from this cause that many articles of capital are desired, and not from any quality they possess of gratifying our senses. They are desired for the pleasure they cause us through the medium of our imagination, or in other words, for the pleasant reflections they give rise to.

It is hardly probable that a person would wear diamonds if he were so situated as to be entirely secluded from the possibility of any human observer. If, however, he did, it would be because the wearing of them would give rise to some pleasant reflections caused by their having been worn in times past, and by their now exciting a reproduction of the agreeable thoughts which they then gave birth to. They would not be worn in such a situation from any pleasure they would cause the senses to produce. The pleasure they are the means of causing to us in society is probably derived from the desire of superiority which we have just spoken of.

Knowing the pursuit of wealth to be an object of such general ambition, we conclude that every person who observes in our possession an article beyond his means of attainment, must view us in a point of view highly flattering to our self-love. Any way, this is certain, that our reflecting on something which we suppose is passing in the minds of beholders, is all the pleasure which we receive from these decorations, and from various other articles which we seek with avidity, and indeed employ a great portion of our lives in procuring.

The subject which gave occasion for this digression on the nature of our desire for these articles, was our speculating on the result of a policy which should restrain the use and production of any article that did not administer to the necessities of our nature, or to our palpable convenience, such as wheat, leather, and blankets.

We endeavoured to show that the exertions of the nation would be lessened by this lessening of the objects for which

we now exert ourselves, or that in case these exertions should not be lessened, that then they would (for the purpose of gratifying our desires for personal superiority) be employed in collecting these necessary articles in such quantities as to make the exertions which produce them equally misemployed as if they were spent in the production of diamonds, laces, or any other articles which may, in one sense, be termed useless. Because, if it be useless to employ time in the production of diamonds, it will be equally useless to employ it in the production of blankets, after a sufficient quantity should exist to answer the purposes of defence against the inclemency of cold ; and yet it is easily conceivable, that if we exert ourselves in the production of diamonds and various other articles for the mere purpose of attaining a personal superiority, that we should for the same purpose (when restrained from any other pursuit) accumulate vast quantities of blankets, or any other article we might be permitted to exert our industry upon, and endeavour to attain to a personal superiority by maintaining in our possession a larger quantity of blankets than others of less ability or perseverance could acquire.

It is not intended that this would be the operation of such a restraint as we have described,—it is only meant that such might be the operation.

Any speculation that cannot be elucidated by former experience, will in all probability differ very widely from what would actually result from the assumed premises, and therefore we shall not presume to say what would be the effects produced by any restraint on our exertions.

But to speak of the propensities of man, is to treat of a subject with which our experience has brought us acquainted, and we may therefore assert, that whatever forced regulations man may be made to conform to, yet so long as he retains that principle which he at present possesses, and which we have named ambition, so long will he endeavour to rise superior to his present equals. If he is restrained from doing it with articles of capital, he will do it with courage in war, with expertness in the chase, or with some other means that the new order of things might give rise to.

To determine what pursuit would be really best for this passion to expend itself upon, is perhaps a question of difficult and even impossible solution. To judge by our own habits, we should say the accumulation of capital. A military nation might say renown in battle, and perhaps feel an emotion of scorn for the man who should be content to pass his time in peaceful occupations.

Something similar to this spirit is now observable in France, where the English nation, from being less military is called, in contempt, a nation of shop-keepers.

The wealthy merchant of a highly commercial nation will scarcely suffer the company of a military man, whilst in a military nation a man of that profession will scarcely brook the society of a merchant.

In a nation where the pursuit of capital forms the primary object of general ambition, it is improper to endeavour to account for our desire of any article by the particular use it can perform, and to suppose that none is beneficial but those to which we can appropriate some such use. On this principle we might discard the greater part of the articles we possess. They would not be desired by an individual who should be placed remote from any human society, and are by us desired only as the acquisition of them is, a means of affording us pleasure through the medium of the imagination, by the process which we have already described.

A PUBLIC LOAN INCREASES THE NATIONAL CAPITAL TO THE AMOUNT OF THE LOAN.

IF the general government commence some expensive internal undertaking, and defray the expenses by creating a public debt, the loans must be taken up in this country, or in a foreign nation. We will suppose, first, that they shall borrow from some foreign nation, five millions of dollars; bring them to the United States, and distribute them amongst the citizens for various services. The United States will, by this distribution obtain an increase of capital equal to the amount distributed, say five millions of dollars.—That is, their capital, which we will suppose, was before the distribution, twenty millions of dollars, will be now five and twenty millions, and whatever further sum may be borrowed, imported and distributed, will operate in a like manner.

We will now suppose that the government shall adopt the other mode of borrowing, and receive from their own citizens this loan of five millions. It will be evident that the money must be taken from the capital of twenty millions that we before allowed the United States to possess, and that there would then remain only fifteen millions were it not that the five millions borrowed are replaced by that amount of government securities. If the five millions borrowed by government, and in their treasury, be kept unexpended, the national capital will not amount to more than it previously did, neither will it to less; because the government securities supply the place, and fully represent the five millions borrowed, answering every purpose in a foreign or domestic market, that the amount of specie would have answered which was given for them. In the other case, if the government do not lock up these five millions, but expend them within the country, it will appear that the original twenty millions is again restored to circulation, and also an additional capital of five millions of government securities. If, after these first five millions are thus expended, government again borrow another sum, and in the like manner expend it, the national capital will be farther increased to the amount of this second sum borrowed, and so of every sum they may borrow and expend.

Government Loans are, in fact, Loans from Government to the Nation.

Government borrow from individuals five millions of dollars. They do not require this sum for the purpose of accumulating, but for the purpose of expending. The borrowed money is, therefore, immediately returned to the people, who not only have it thus returned to them, but they also retain the government securities, which were given to represent it. The national capital is therefore increased to the amount of the government securities, which increased capital the nation may continue, to use as a borrowed capital, by paying the stipulated interest for it. That is, the people must permit the government to collect from them the amount of interest pledged to be paid on these securities.

What Capital is.

If an explanation be required of the term capital, it may be given by stating that when used here, it means every article that bears a value in market. Any article may be classed with capital if the possessor can exchange it for some other article that he desires to purchase. Accordingly, if the possessor of government securities, can obtain in exchange for them some article he desires to purchase, he will know that they possess the nature of capital, and so of all other articles that he may possess, which will produce the same effect.

National capital, is a collective name for all the capital in a nation, and when we speak of a measure as increasing the national capital, it will mean that this measure produces some increase of those articles which have the qualities above described of passing in market, and of enabling the possessor to obtain with them some articles that he may desire to purchase.

Banks increase the National Capital.

Several persons deposit in a general concern, we will say, a million of dollars, for the purpose of loaning it to individuals who may desire a credit capital.—The borrowers deposit their individual notes for the amount of this million, and draw it from the bank.—So far, no capital is added to the nation, because the money drawn from the bank, and put into circulation, was originally abstracted from the national capital by the institutors of the bank; and therefore, it is now no more than returned. If the bankers also turned

into circulation the promissory notes received from these individuals, in exchange for the money lent them, it might then be said that the national capital had been increased, since not only the money was returned to the nation, but an equal amount of the notes of individuals were added to the national capital which had not previously existed. Such is, however, not the operation. The bankers do not put into circulation the notes of individuals which they receive in exchange for their specie: neither do they put into circulation the specie which was originally taken from circulation to be placed in their vaults;—at least we will say that they do not.—In lieu of these, they issue promissory notes of their own creation sufficient to represent the specie in their vaults, and provided they did not issue more promissory notes than just to represent the amount of specie in their vaults, it is evident the national capital would not be augmented. They would then turn into circulation no more capital than what was debarred circulation, by being confined in their vaults.

Experience, however, shows us, that they do not restrict their emission of bank notes to the amount of specie drawn from circulation and confined in their vaults. They emit a much larger amount. We will say they shall issue notes to the amount of two millions, being one million more than the amount of specie confined in their vaults, it will then be obvious that they will increase the national capital one million of dollars, which will continue in existence as long as they continue their operations. By this process, our banking institutions have vastly increased the capital of the nation.

Of the amount of increase, some judgment may be formed from the number of banking establishments, and from the knowledge that each does thus increase the national capital in a proportion to their specie, even much greater than that which we have assumed.

An article of Capital must be an object of Man's desire.

We have said that capital may be known by its effects.—That is, an article may be known as capital when it can be exchanged for some object that we desire to purchase. The question may now be asked, what are the properties necessary to make an article produce this effect? The answer is, that every thing an individual possesses will produce it, when the possession of it is an object of desire to other individuals. Thus, if I possess a horse, a government security, or any other article of capital, and desire to exchange it for silver, the price I shall demand will be some quantity of silver that I de-

sire more than I do the horse, the government security, or the other article of capital. If I obtain my price, it will be because the purchaser desires the horse, or whatever it may be, more than he desires the silver.

The reason why the desires of one individual differ from those of another, and even the reason why various articles of capital are objects of desire at all, may arise from various causes which, although curious and interesting, are quite unimportant to the present inquiry. Certain, however, it is, that without these desires, there would be nothing like what we now call capital, and without this variance in our desires there would be no article of capital of which we could either effect a sale, or make a purchase.

Government Securities are desired for the specie which they produce.

They are objects of desire, and may be taken into market the same as any other article of capital, and may be exchanged for such objects as the possessor of them may desire to purchase. If it be inquired why they are desired, it may be answered by saying, that they produce periodically to the possessor certain quantities of specie, which specie is an object of desire to those who take them.

If it be inquired farther, why specie is an object of desire? it may be answered that the fact must be perfectly familiar to the daily experience of every individual, and indeed to the inquirer's own feelings. The cause of this desire (as was said before) is unimportant in an inquiry like this, into its effects.

It may, however, be observed, that the usual way of accounting for this desire in man for gold and silver, is by stating that they pass in market, and that they are desired for the sake of the objects they may be there exchanged for. Yet this cannot be the true reason.—There must have been a desire to possess them in the individual who first gave any thing in exchange for them. Therefore the desire must have existed before they were received in exchanges; and when they were first received it must have been on account of a desire felt for them.—Like every other article of capital then, the cause of specie passing in market, is the desire felt for it: that it does pass, is the effect of this desire.

An individual may say, that he would not exchange his horse for ever so large a quantity of gold and silver, if he could not dispose of them for certain articles that he might desire. And this may be true; because, if they should cease from being objects of desire to other men, the same cause would, in all

probability, operate on him, and make him also cease from desiring them.

Bank Notes are desired for the specie which they represent.

They are objects of our desire we may know from experience ; and that they are so, is (in this country) owing to the specie which they represent, and to the assurances they give that we may have it delivered to us whenever we demand it.

The amount in circulation may, many times, exceed the whole amount of gold and silver in the nation.

This is, without doubt, the present case of the United States, and yet the desire for them remains undiminished. It proceeds from the desire for them being the desire of individuals. Each one will continue to desire them so long as he believes that those in his possession may be exchanged for the specie they represent whenever he shall demand it. It is a matter of no concernment to him whether the banks would, or would not be able to pay on demand, and at the same moment the specie for all the notes they have issued. His concernment lies in their capacity to pay to him individually, the amount of notes which he may possess, and if he be assured of this fact, (which the experience of himself and of others, continually may teach him) he then receives the notes, and entertains as great a desire for them as for the specie which they represent.

It is this consciousness of individuals in the ability of banks to satisfy their individual claims, that makes them indifferent about demanding them, and enables banks to issue notes to an amount far exceeding the quantity of specie detained in their vaults, and of which these notes purport to be the representatives.

The concernment of bankers does not lie in being at all times prepared to liquidate the whole quantity of notes they have in circulation ; but it lies in being at all times prepared to liquidate that portion of them which may be actually brought for liquidation.

It is only through this system that they are enabled to increase the capital of a nation, for it would not be increased were they forced to keep abstracted from circulation, the same amount of gold and silver as is represented by their notes. So much, therefore, as the amount of bank-notes which they emit, exceeds the amount of specie which they abstract from circula-

tion, so much the national capital will be increased by their operations.

Notes of Individuals are objects of desire, and possess the nature of capital.

If it be inquired why they are objects of desire? It may be answered that they represent specie, which is a desired object; and that we expect to receive for them the amount they represent at some certain future period.

They increase the Capital of a Nation.

It is the same with notes of individuals as with those of banks, that if they abstracted from circulation the amount of specie which they represent, the national capital would not be increased by their creation. But we know from experience, that individuals who issue them, do not abstract from circulation the amount thus represented. That is, they do not keep by them, in reserve, a sum of money sufficient to redeem all their outstanding notes. Their only concernment lies in possessing at any one time, such an amount as they know will liquidate the demands which they at that time are pledged to liquidate, without any reference to those which need not be liquidated until a future day.

The notes of individuals may exceed in amount not only the specie of a nation, but also the bank-notes of the nation.

It has been said that the bank-notes in circulation may many times exceed the whole quantity of specie. The same may be said of the notes of individuals, and with this addition, that they may not only exceed the specie of a nation, but the bank-notes of the nation superadded. This excess does, also, no doubt, exist at the present moment, in actual practice. The amount however, which is payable at any one time cannot exceed the amount of the whole specie and bank-note capital of the nation;—For did notes of individuals for sixty millions of dollars become payable to-morrow, it would be impossible to liquidate them in a nation where all the specie and bank-notes did not amount to more than twenty millions of dollars. Because, as sixty millions were required at one time, they could not be furnished where only twenty millions existed. But if the amount of notes remain at sixty millions, and we vary the time of payment, there will be no difficulty in the liquidation. Thus, we will say one individual (for it has

the same operation) shall commence business, and every day give his note for one million of dollars, payable at the end of sixty days from each period. It will appear, after he shall have continued these operations for sixty successive days, that he will be indebted sixty millions.—They will become due one million each day. We will say that he shall determine on always being in debt sixty millions, and accordingly, as soon as he has discharged the note first due, he shall immediately make a fresh purchase, and give a new note for a million, payable at the end of 60 days. By this course he will never be indebted over 60 millions, but he will always be indebted to that amount. It will be his concernment to provide daily, one million of dollars, and if he can effect this, it will be immaterial how much his debts exceed the specie and bank-note capital of the nation.

This statement shows that his individual notes may treble in amount the specie and bank notes, and yet if he can provide daily only one-twentieth part of them, it will be all that is required of him. To aid him in this provision, he will have continually on hand 60 millions in the merchandize or other property for which he give his notes, as he daily contracts a new debt to the amount of that which he liquidates.

Bank Notes might continue objects of desire even though specie should be refused for them at the Banks.

In saying bank-notes are objects of desire on account of the specie which they represent, and on account of the consciousness we possess, that they may be exchanged at will, for the article represented, we speak of the present operation of these articles of capital. In England, the public bank of that nation has long since refused to redeem their notes with specie, and yet they still continue to be objects of general desire. It must be remembered, that whenever bankers emit their notes, they always receive in exchange an equal amount in the private notes of individuals. This exchange is desired by an individual on account of the superior and more widely diffused confidence that is placed in the bankers over what is placed in him individually. In fact, the discount which he pays to the bankers is not for the use of any actual specie, (for they loan him none) but it is for the use of their name and credit. It is a fact of which there can be no doubt, that no bankers would be able to redeem with specie all their notes, which they have emitted, if they should, at the same moment, be presented to them for redemption

The bank-note capital of the United States does, unquestionably, many times exceed in amount the whole specie capital of

the nation. We will suppose that the bankers should find it impossible to meet the demand that might be made on them for specie, and should, accordingly refuse to give it in exchange. The desire for bank notes would, in all probability (judging from the experience of England) be very little impaired. There would still be a profitable use in the nation for all the notes in circulation, because, we have already said, that the bankers possess notes of individuals sufficient to represent all the bank-notes in circulation. It will therefore follow, that each of these individuals so indebted, will be as anxious to obtain the bank-notes as they ever were, and indeed will receive them as gladly as so much actual specie, since they will answer the same purpose which that article would, in redeeming their individual obligations held by the bankers, and for which they would have to give specie if they could not obtain bank-notes. There will then continue to be a demand for the notes of every bank that shall possess individual notes sufficient to represent their own in circulation, and this will be the case with every bank who has not acted fraudulently, or who has not been unfortunate or indiscreet in loaning to individuals who are incapable of refunding the amount borrowed. This calculation is also grounded on the supposition that each bank should continue to receive its own notes in payment from its debtors—a contrary procedure could be dictated only by fraud, and of course not entitled to any consideration in a calculation on general operations.

If we suppose that this change in the custom of banks should not alter the credit of bank-notes with the different institutions, but that the debtors of any one bank might be allowed to redeem his obligation with the notes of any other bank (the same as is now practised), it is then extremely doubtful if this change of system would at all affect the currency of bank paper. There are so few persons in society who are not either themselves indebted to some bank, or who do not pay their money to those that are indebted, that we might pretty confidently look forward to no alteration in our desire for those articles, if every bank-note might be employed in the way we have imagined, and which undoubtedly would be the actual operation, since it would be dictated to those institutions by their general interest.

At this distance from England, it is imagined that nothing enforces the circulation there of the national bank paper but a law which prevents its being refused by individuals. Such a law might, it is true, prevent a person from refusing it when offered, but it could not give to it a value or uphold its credit. The only operation of such a law is to prevent litigious and vexatious suits, by persons, who, however much the value of any article would refuse to receive it, or perhaps any other that they

could refuse, for the purpose of perplexing their debtor if they bear him ill will, or of injuring him by the cost of a suit at law. It is from this consideration that some article in every country is provided as a lawful payment for debts, which law no more gives a value to bank-notes than it does to gold and silver, or any other article that it designates. To be convinced of this fact we need only suppose that the law should declare that water must be receivable in payment for all debts at the rate of a dollar for every pint. Transactions that had already been made could not of course be accommodated to this new state of things, and creditors would be injured to the amount of their debts at the time of this new regulation; but thereafter, an entire new course would be pursued, and the price demanded for every article to be sold on credit, would be regulated by the article they knew they were liable to receive in payment. If this article was so extremely void of value as a pint of water, there would be no credit operations; and if it were tendered in payment for present purchases, there would be no person willing to sell. It would cause a total suspension of all exchanges until purchasers should offer some article of actual value. The effect of a similar operation was observable in the war of our revolution, and notwithstanding the law to enforce the receipt of continental paper, it immediately vanished from circulation when it ceased from being thought valuable. That bank of England notes do therefore possess a consideration of value, is not owing to a law which enforces their acceptance, but to the uses possessed for them by individuals in liquidating their notes held by the bank, and in meeting the requirements of government, which can be answered with this paper equal to what they can be with actual specie.

The extent to which our present banking system (of giving specie for their notes) can be extended, will have some reference to the amount of specie in the nation.

We have shewn that the present operation of banks is to liquidate such of their notes as may be brought for liquidation. The amount thus brought bears but a very small proportion to the quantity in existence, but yet it appears reasonable to suppose that it must bear some proportion. If twenty millions were in existence, there would be more brought for exchange, than if only one million existed; and the like reasoning will apply to show that the larger the quantity in existence, the larger will be the quantity brought for exchange—Not that it is supposed the proportion increases with the quantity, but on the contrary, it is supposed to diminish; so, that if one per cent. of the capital was daily brought for exchange, when only one million was in circulation, not so much as a quarter of one per cent. will be brought when the capi-

tal is twenty millions, owing to the increased familiarity the people have with them, and to the superior confidence thereby excited. If, however, the quantity for which an exchange is required, does increase, by an increased emission, (however much the proportion may decrease) it will be evident that the quantity which may be emitted must have its limits, and that it can never be so extended under the present operation as to make the amount brought daily for exchange, exceed the amount of specie in the nation, and of course exceed the amount possible for the banks to possess. It therefore appears, that the present banking system has its prescribed limits, and although bank-notes may, many times exceed the specie of the nation, they cannot, under the present regulations, be so extended, as to make the customary amount brought each day for liquidation, exceed the amount of the specie in the nation.

An Article may lose its character as Capital.

Any occurrence that should operate to destroy our desire for bank-notes, or any other article, would also destroy its character as capital. It is not intended, that all articles are equally secure against this change of character; experience gives continual evidence to the contrary fact. Thus, notes of individuals may be objects of desire one day, and the next, cease from being so. Bank-notes are less liable to this vicissitude than notes of individuals; and government securities are still less liable than either. An article ceasing from being an object of desire, as with the notes of a person become bankrupt, frequently creates much individual distress to the persons who unfortunately possess them. The advantages however, derived to a nation by the facility presented to individuals of increasing their capital by this means of credit, far outbalances its disadvantages. The same may be said of banks, excepting that by their more widely extended transactions, the advantages derived from their operations, and the disadvantages resulting from their failure, are much more widely diffused. Government securities are so very seldom subject to this change of character that they present a stability to the possessor, differing but little from houses and lands, for we find that they are seldom effected but by some violent commotion of the nation itself, which when it is sufficient to destroy them, seldom fails from destroying or wresting from the owners, all the other articles of capital in their possession.

Skill and Labour create Capital.

If all my possessions amount simply, to a log of wood, which

shall be an object of no man's desire; and I can, by art or labour, shape it into any desired utensil, I may take it into market and exchange it for some article I wish to purchase.

Again, if I dig from the earth silver ore, and fabricate therefrom a hundred dollars, I shall also have created a capital, but not more obviously than can be done by man, in the formation or production of any other object of desire.

Capital is perishable.

This is a proposition so familiar to our constant experience, that it need only be understood to find immediate assent. Our daily food is thus a capital, which had we not consumed, might have been exchanged for other objects we had sought to purchase.

The destruction occasioned by fire, by shipwreck, by breakage, and by various other causes, known to the experience of each individual, will convince him of the quantity of capital which goes daily from existence, and which, were it not as rapidly reproduced, would soon deprive man of the objects of his desire, and eventually of life itself.

Credit capital perishes more rapidly than any other, regularly expiring at short stated periods; and were it not for its regular and equally rapid reproduction, the whole would soon vanish from existence.

An Increase of Capital is desirable.

We have already shown that the quality by which capital may be known, is, that it can be exchanged for some object that the possessor wishes to purchase; and that the reason why it may be so exchanged, is, that it does itself constitute some object of man's desire. It follows, that an increase of capital is an increase of some objects desired by man.

The business of life is to procure the objects of desire.

If it be inquired whether an increase of the desired objects called capital, be beneficial to a nation, it may be best answered by examining the conduct and occupation of man. We shall then find that the great business of each through life, is the procurement of these objects.—When he obtains them he receives pleasure, and when deprived of them, he suffers pain.

We distinguish Nations by the quantity of Capital they possess.

The great difference between one nation of people and another, consists in the quantity, and also variety of desired objects the inhabitants of the one possess, compared with those which are possessed by the inhabitants of the other.

Nations in which the objects of desire are few, and the variety small, are called rude and uncivilized. Those which possess more desired objects, and also a greater variety, are termed more civilized and refined, and that nation which possesses a greater number and variety of desired objects than any other, will be esteemed the most refined and polished, and will be considered as having attained to a higher state of civilization and improvement than any other. It may be said, that these possessions are effects resulting from civilization and refinement, and not the causes which produces the refinement. Be it so. This, however, is certain, that there never was a nation considered highly civilized and refined, which did not abound in articles of capital; and there never was a nation abounding in capital, which was not considered both civilized and refined.

A great portion of this Capital, is created by skill and labour,

Amongst which, are houses, furniture, clothing, and perhaps all the articles of convenience and elegance with which highly improved societies are furnished.

The chief portion of their food may also be thus classed; for the unaided and spontaneous efforts of nature form but a small part of the sustenance of man in improved society.

It has been said, that the serious business of man's life (that is in practice) lies in procuring the objects of his desire. To procure them, he must either fabricate them himself, or purchase them of others. Our own experience will sufficiently teach us, how few can be produced by his own individual fabrication. His mode of procuring them then, must be by purchase.

His gratification will be restricted only by his means.

Finding himself destitute of every object of desire, his chief concernment will be to obtain that first, for which his desire is most urgent. This will probably, be food. He finds it in abundance, but no persons will part with it until he returns them an equivalent in some object which they desire more than the quantity of food they are willing to give for it. If they desire his labour more than the food he requires, they will accept of it in

exchange, and if he desires the food, they are willing to give more tha the ease he must forsake in thus obtaining it, he will agree to the exchange and thereby obtain food. Labour will henceforth constitute his capital, if it be the only desired object in his possession.

His Desires increase with his Means.

We have daily occasion to observe that no man is so humble, but, on acquiring the means of gratifying his present desires, he will immediately feel others that he was before a stranger to. He who formerly lived in a small hut, walked on foot, and wished for no greater enjoyment than coarse food, furniture and cloathing, will, on acquiring these, also acquire new desires beyond his means of gratification. He will wish a more spacious mansion, better furniture, food and cloathing, and if these were also obtained he would go still farther, and indeed would continue extending his desires beyond the reach of his ability, so as never to be without ungratified desires in every station, however affluent.

His Pleasure depends upon the number of Desires he can gratify.

That man receives pleasure in gratifying his desires is a proposition so very familiar to our experience, that it will be useless to dwell on it. The inference, however, to be drawn from it is, that he who can gratify the greatest number of desires, must also be in the reception of the most pleasure. If this be so, (and the enjoyment of pleasure, an object worthy of our concernment) it appears that an individual will be benefitted by any measure that enables him to obtain the objects of his desire, although by thus obtaining them, he gives birth to new desires for objects beyond his attainment. For, we will suppose he shall be in the possession of fifty objects of his desire, and that he shall also desire fifty other objects which he has not the means of obtaining. By what we formerly said, he never will be able to obtain all the objects of his desire: and were he to receive these fifty, he would immediately find that he desired a farther fifty that he had not before thought of. It may therefore be inquired, what would be his advantage in receiving them, seeing that he would still have an equal number ungratified? The answer is, that it would increase the number of his gratifications, although it would not diminish the number of his wants. Formerly he had only fifty objects of his desire, he has now one hundred; he therefore has increased his enjoyment by the pleasure that the possession of the additional fifty desired objects bring with them. The number of the objects that he cannot obtain, are on

the contrary, not increased, they are still only fifty; he is therefore benefitted without any increased disadvantages.

His desires do not so readily decrease with the decrement of his means.

We have stated, that he shall now enjoy one hundred desired objects, and shall not feel the want of more than fifty, which was the number he was originally solicitous to obtain. We will suppose, that after being in possession of the hundred for some length of time, the means by which he obtained the last fifty shall suddenly and unexpectedly fail him. He will then be in the same situation as to enjoyment that we first found him; that is, he will still possess fifty desired objects. His situation as to the objects which he cannot obtain, will, however, be widely different. He then knew the want of only fifty objects—he now knows the want of an hundred. For the imagination cannot divest itself of the knowledge of those fifty wants which were called into existence by his former good fortune. He therefore suffers the additional fifty wants that this good fortune called into existence.

He will be unhappy in proportion to the desires which he cannot gratify.

Our experience, will, perhaps, sufficiently demonstrate, that we feel a degree of unhappiness when we cannot gratify our desires. If so, it will follow, that the more ungratified desires we have, the more unhappiness we shall suffer; and of course, the person before spoken of, who has now one hundred desires ungratified, will suffer more pain than he did before his good fortune made him acquainted with fifty new desires. It may be this principle that makes persons unhappy on any reverse of fortune. We frequently meet with individuals, who, by gradual advances, acquire large possessions. On any decrease of these, we find them unhappy, although when they first attained to the fortune they are now diminished to, they considered themselves extremely happy. This must arise from the many desired objects they now feel the want of, which at that time they were unacquainted with, and which were brought to their acquaintance by the possessions which they now have lost. There is likewise a great difference between our desire for things which we have actually possessed, and our desire for things which we only want to possess, without ever having done so. Thus, however much a poor man might desire a stately palace, he would feel more pain at the loss of his cottage, than he had ever before felt at not possessing a palace. Our greatest unhappiness appears to arise from the

want of objects that we have been accustomed to enjoy. We feel a less solicitude about obtaining those that we never have possessed, but yet it is sufficient to engage all mankind in daily and incessant exertions, and therefore cannot be inconsiderable.

Possessing Capital enables us to increase our Possessions.

The methods employed by man in acquiring the objects of his desire are various, and also well understood in practice. It may be noticed, however, that the use of capital is generally the most potent aid in these acquisitions. A borrowed capital is therefore sought with avidity, and it is to this cause that the creation of all our banks may be attributed. Not that the bankers establish them to enable individuals to acquire a credit capital, they create them for the purpose of enjoying the productiveness attendant on specie thus invested; the cause of which productiveness is the desire of individuals to obtain a credit capital. The business of trade is to purchase or to fabricate the objects of desire, for the purpose of again parting with them to any person who will give in exchange some object of greater desire than the dealer gave in the purchase. The excess in the price received over the price he paid, may be considered as the capital gained in the exchange. By the use of a borrowed capital, an individual is enabled to extend his business, and thereby enlarge his possessions beyond the size they could otherwise attain. His gains will depend upon the extent of his business, and the extent of his business will be governed by the amount of capital he is enabled to command. Persons who have few possessions of their own, and who cannot obtain a borrowed capital, are generally restrained to small gains and petty accumulations. For property must be acquired by exchanges, and the amount of the seller's profits on each exchange, will, in a measure, depend upon the magnitude of the transaction.

A Man seldom gets rich by his Individual Labour.

It is on this principle that a man is seldom enabled to acquire large possessions by the operations of his own labour. His exchanges are few, and their magnitude trifling. A master workman who engages a number of individuals under him, will be enabled to accumulate larger possessions. He exchanges the labour of each of them to some profit, and therefore his exchanges are more numerous than those are of a single labourer, and his accumulations are accordingly larger.

Our Desires cause the Production of Capital.

The desire of man to increase his possessions sets in motion the various members of society, and all the productions of human ingenuity and labour that fill a civilized and polished nation, are instruments that were formed by individuals for increasing their possessions. That these instruments have this effect, is caused by the desire felt for them. Thus, the artist who fabricates a watch (an article desired by many individuals) exchanges it for more capital than he employed in its fabrication. The surplus is his gain, which must also be a greater object of his desire than the present ease he sacrificed in obtaining it. In this transaction, it appears, that he has increased the objects of desire in the nation by the production of a watch, and that his motive for so doing, was to obtain gold, or some other object of his desire. If we look still farther, we shall find that this gold, or other object he obtained, was itself brought into the possession of man by some individual from a like motive, and so of every other article we may examine.

Specie the most used in exchanges.

We have said that men employ a great portion of their lives in acquiring the objects of their desire. Although, all the objects they exchange in trade are articles of man's desire, yet they may not be objects of every man's individual desire. Each will, however, be anxious to obtain an article, even if he dislike it himself, provided he knows that it can be re-exchanged for some object of his own peculiar desire.

Specie, from being an object of desire easily transported, or from some other cause, not necessary to be here inquired into, is more frequently exchanged for other objects than any one article of capital in our possession. So frequently indeed, is it thus employed, that the quantity of it necessary to be given in exchange for each other article, is pretty generally known to a whole nation, and this quantity constitutes what is practically called the price of every such article.

Of Value.

The value of an article (in practice) means the quantity of any other article it is desired to be exchanged for. The value of a bushel of wheat to a person who wishes to exchange it for specie, is the quantity of gold or silver that he can procure for it. The value of a hundred silver dollars to a person who wishes to exchange them for wheat, is the quantity of that article which he can procure for them. And so of all articles when they are either exchanged for specie or any other article.

The quantity of every article possessed by man depends upon the difficulty or facility of its procurement.

In comparing one article with another, we distinguish that as more scarce of which we possess a less quantity, and that as more abundant, of which we possess a greater quantity. Thus, gold is called more scarce than lead, and iron more abundant than silver. In this distinction, we only allude to their quantities as they exist in our possession. Which of these articles is least abundant in nature, is beyond our present knowledge. We know the contents of the earth so far only as we have penetrated.

Since the earliest periods, gold has been accumulating in the hands of man. This seems to show that our not possessing it in any greater quantity, must arise more from the difficulty experienced in its discovery and extraction from the earth, than from its non-existence there. Any new discovery that should so improve the method of obtaining it, that one man should be able to remove as much earth, or pierce as far into the earth in one day, as he at present does in two, would have the same operation in increasing the quantity of gold in man's possession, as a new order of nature, that should double the quantity in which it at present exists.

From our experience hitherto, we may conclude, that were the world to continue in being as much longer as it has already existed, that there never will be a time when men will not be employed in extracting gold from the earth. If this be so, our not obtaining at this present day, the whole quantity that will have been obtained at the end of the period just mentioned, must arise, not from this quantity not existing, but from our want of power to obtain it.

If we admit this position, it will then appear that the quantity we possess is limited by the difficulty of its procurement, and not by its non-existence in nature. The same may be said of every other article, and it therefore follows that when we possess an article in greater abundance than we do gold, it arises from a greater facility in its procurement, and not necessarily from the quantity in which it exists in nature being larger.—Our experience will, any way, fully justify the assertion that those articles which we possess in great abundance, are those which we obtain with little difficulty, and that those which we possess in a less quantity, are those which we obtain with greater difficulty.

The exchangeable value of articles is ultimately governed by the relative difficulty of their procurement.

Of several objects of desire, every individual will rather part with that object which he can most readily replace. If a quart of water can be more readily replaced than a quart of beer, it will be said not to be worth as much as the beer; but if a hogshead of water cannot be replaced with so little difficulty as a quart of beer, it will then be said to be worth more than a quart of beer.

It therefore appears, that a diminution in the present relative value of any article of desire, when compared with another, would be effected by rendering the object, the value of which you wish to diminish, more easily attainable.

Thus, if you wished to diminish the value of a quart of beer down to the value of a quart of water, it would be effected when you made the production of the beer a matter of as little difficulty as the attainment of the water. Whether such an event is, or is not practicable, concerns not the present inquiry; the circumstance is stated merely to show the consequence that would result from such a change in the state of these articles.

This relative difficulty in the production of the objects of desire, must ultimately govern the rate of exchanges, and determine the quantity of any one article to be given for another. For, did the procurers of gold discover that a ton weight of iron was procurable with less difficulty than an ounce of gold, and that this quantity of iron could be exchanged in market for some object of greater desire than that quantity of gold, they would immediately cease from procuring gold, and employ themselves in procuring iron. The consequences would be, that either a sufficient inducement must be offered to make them, or some others, return to the procurement of gold, or the supply of that article will ultimately cease. The inducement required, will be, that the ounce of gold shall be considered an object of as great desire as the ton of iron, and that it shall be exchangeable in market for as much of any object, as the iron can. This inducement will accordingly be given. Not, however, by any concerted agreement between individuals, but by the natural operation of trade, produced by the consequent diminution in the supply of gold, and the augmentation in the supply of iron, thereby causing a surplusage in the quantity of iron in market, and a scarcity in the quantity of gold, both of which will hereafter be more fully spoken of.

The facility with which an article is procurable, dictates its use.

We have attempted to show that the quantities of each article in the possession of man, bear some proportion to the relative difficulty in their production. They possess more iron than gold; more lead than silver; more pebbles than diamonds; and they also procure the articles which they possess the most of, with more ease and facility than those which they possess a less quantity of.

It is an observation consonant to our daily experience, that articles of the first necessity, are those which we can procure with the least difficulty. If we well consider this fact, we may be led to the conclusion that these articles are not of the first necessity, from any express order of our nature, but they are so from a habit growing out of the great facility in their procurement, and that the articles which we now think of small necessity, would, under a change of circumstances with the others, have been those of our greatest necessity.

Iron, which is easily procured, is also an article of great necessity. Had iron, however, been an article of difficult procurement, it could not have been possessed by us in sufficient quantity for all the uses to which we now apply it. We should have resorted to some article of easier procurement. We will say gold should have been this article, and also have been of easy procurement.

If it be then said, that gold, nor any other known article, can be applied to several uses, to which we now apply iron, it may be answered, that these uses were discovered, not by any abstract reasoning, but by actual experiment with iron itself, and therefore, if we had not possessed it in sufficient quantity to dictate the experiments, we should have known nothing of those uses, however necessary they now appear to our convenience. But even if chance had discovered them, and the difficulty in the procurement of iron, had prevented its application, the privation would have been as unimportant to our peace, as it now is that diamonds cannot he procured with sufficient facility to be used in the construction of furnaces, since the infusibility of those substances would render their application to this use, as desirable an improvement as can well be conceived.

If the relative facility with which the objects of desire are procurable, had been different, the state of society would also have been different; but whether for our greater or less relative convenience, is perhaps a question of impossible solution, because, although we know of many uses to which gold cannot be applied with equal advantage that iron can; yet if it were pro-

curable with the facility that iron now is, there can be little doubt, that various new uses would be discovered for it, of which we know not now the excellence. The same may be said of a like change in the relative circumstances of any other articles. The consequences that would result from such a change are, however, immaterial to our present inquiry, and will therefore not be investigated. We have said that the facility with which an article is procurable, dictates its use, and this may be evinced by many familiar observations. In passing through a country where stone is more easily procurable than wood, we shall find not only all the cottages constructed of it, but also the fences, and that it is applied to various other uses, that nothing could have suggested but the facility of its procurement. The same uses would have been made of the finest marble, or of alabaster, had it existed under like circumstances, and the article (which ever it was) would have been distinguished as of the first necessity to the inhabitants. Again, it is difficult to find, in most countries, an article more easily procured than water, and we accordingly find that there is no article in such countries, of which so large a quantity is used, or which is considered of so great a necessity.

A Surplus can never long exist.

If we admit the foregoing observations as correct, it will appear, that it is difficult to conceive any article that can be possessed by us in a surplusage, at least for any length of time. Because, if we are governed in our uses of an article by the quantity we can obtain, it will follow, that an increase of the article will soon be accompanied by some new or extended use, sufficient to embrace it, and this will, perhaps, better appear from a consideration of our ideas on the quantities which we call scarce and plenty.

An article is scarce or plenty in proportion as the quantity in market either exceeds or falls short of the usual supply.

We have so far extended our uses for water, (owing to the facility of its procurement) that it is frequently considered as existing in scarcity when the quantity in which it is possessed by an individual is so large as to immeasurably exceed all his other possessions. Thus, a man living near a river navigable for boats, may, without any appearance of absurdity declare, that it does not contain water enough for his use; that he should desire such a further quantity as would permit a navigation by sloops or even larger vessels. The quantity of water is insufficient to satisfy his desires for it, and is therefore said to be scarce. Did

the same individual produce from his farm 500 pounds of sugar in a year, he would say that he possessed that article in great plenty : that is, it would satisfy all the uses he had been accustomed to apply sugar to, and he would have no desire for any additional quantity. Not that he would refuse receiving an additional quantity gratuitously, because his experience would inform him, that he could exchange it for some other object of desire ; but he would refuse purchasing an additional quantity for his own consumption, because he would feel no desire to its use. He had already a sufficiency for all the uses he had been accustomed to apply sugar to. This would not be his feelings, however, on an offer to furnish him with an additional quantity of water ; could this object be attained, he would gladly purchase a sufficiency for a sloop or a ship navigation, and give some important object in exchange, because, for this additional water, he has a known use, and accordingly feels a want which he would gladly remove. If, therefore, it is the facility with which water is procured, that has occasioned its being thought necessary in such large quantities, we may form some idea of the quantity of any other article which would be required to produce a permanent surplus. And although it may be difficult to conceive the precise uses the addition to the quantity of any article would be applied to, yet every person must have experienced various changes in the circumstances of different articles, whereby a larger quantity has come into the possession of man than he had been formerly accustomed to possess, and I doubt not, that the result produced by this additional quantity has always been the creation of some new uses sufficient to absorb it. An event something like the foregoing, occurred in the western part of the state of New-York, which, as it is applicable to the present subject, will be related.

The inhabitants of that part of our country, employed the greater portion of their industry in the production of wheat, which was used in supplying the European markets. When the embargo was in operation, this use was of course suspended, and the quantity of wheat that had formerly been applied to it, became surplus : that is, it had no definite use to which it could be applied. The opinion generally entertained at that period, by persons at a distance, was, that this surplus quantity would have to remain as a dead capital in market until the former use should again revive.

Much of it was, no doubt, for some time in this situation, but a use was soon appropriated for the whole quantity which has ever since operated to prevent the transportation of grain from that country. This use was distillation. Instances, on this subject, might be multiplied without number, but only one more

will now be submitted. Since the first establishment of banks in the United States, it has been the constant apprehension of bankers, that an increase of those establishments would over supply the market with specie capital. Every proposition for a new bank has been encountered with this objection. New banks have, however, annually been created, and the practice has shewn that the predicted consequences were ill founded. Specie, like every other article of capital may, however, be produced to exceed in quantity the established uses, and thus create a temporary surplus, but new uses would soon be discovered to embrace any conceivable quantity that can be put into the possession of man of that article, or of any other.

An insufficiency of quantity in any article cannot long exist.

The quantity of any article about which man is really solicitous, is the quantity which he has been accustomed to enjoy; the quantity for which he has some habitual use. Nearly all the wants we possess, arise from habit. The articles which are now sought for with anxiety, were once considered as surplus. They existed heavily in our possession until the uses they were first applied to, more perhaps from sufferance than desire, became endeared to us by habit. The same means, that is, to be habituated to its disuse, will make an object of our present solicitude, become first indifferent to us, and at length totally unimportant. No proposition can be more palpable to our reason, than that an article cannot be used in any greater quantity, than that in which we possess it; we will therefore suppose that the quantity we have been accustomed to possess of some article of desire, shall suddenly diminish one half, and remain permanently thus diminished. The consequence will be, that some individuals, and perhaps every individual, will have to enjoy less of it than formerly. Each individual who can afford it, will make an effort to obtain his accustomed quantity. The price (from these efforts) will accordingly rise in market. Some individuals, perhaps the most wealthy or voluptuous, will obtain their whole quantity; many will be forced to receive less than their usual quantity, and some will discontinue its use entirely. As we have admitted that this diminution shall continue permanent, it will follow that in time, each individual will become reconciled to the quantity he has been enabled to obtain under its operation. Those whom the advanced price shall deter from purchasing any, will at length cease from desiring any, and each individual will, on every following year, be contented with obtaining the quantity he obtained in the preceding one. The habits of each will become reconciled to his diminished quantity, and the article will cease from being considered as existing in scarcity. If therefore

no other cause had affected the price of the article but the efforts made by individuals to outbid each other, these efforts will cease as each individual becomes reconciled to his diminished porti n; and when each shall have become entirely reconciled, no efforts will be necessary, and the price will gradually decline to its former standard.

Dear and Cheap.

We have now endeavoured to show, that no quantity of any article will long exist as a surplus, or be deplored as an insufficiency, and that our habits will soon become reconciled to the quantity put into our possession, be it more or less than formerly.

We have also endeavoured to show, that our ideas of scarce and plenty, when used of an article in market, have no reference to the magitude of the quantity, only as that quantity is either sufficient or insufficient for the accustomed, and accordingly, desired uses.

Iron may be considered scarce, when there are a thousand tons in market, and gold be considered plenty, when there is less than one ton. There is still another distinction which we use of the objects of desire, and that is, dear and cheap. We do not call an article dearer or cheaper than another, because it demands a greater price than the other, but we call it dearer when its present price exceeds that which we have formerly obtained it for, and we call it cheaper, when its present price is less than formerly. One article may, accordingly, be considered cheap for a thousand dollars, when an equal quantity of some other, may be considered dear for one dollar.

We have said, that the permanent price of every article must be governed by the difficulty or facility of its procurement, and that an article of easy procurement, cannot long command a greater, or even so great a value in exchanges, as one of more difficult procurement. The temporary price of articles will, however, frequently vary from this standard; nor is the price an article bears in market, that is the quantity of any other that is given for it ever openly judged and determined by this standard. It operates more by the consequences it produces, than by any principles of reasoning or equity.

The mere knowledge of difficulty, ever so great, encountered in the procurement of an object, will not make another person give in exchange for it, an article of his most easy procurement, without he desires this other more than he desires the one he is to give in exchange, and without he also knows that he cannot procure it on more reasonable terms. If, there-

fore, the article procured, is not sufficiently desired to make others give in exchange for it, the quantity of capital that will warrant its procurement ; or if, from any other cause, the price shall stand below its true relative value, the article will gradually cease from being procured, and will be said to have become scarce. That is, the article will no longer exist in market in sufficient quantity to answer the demand dictated by the accustomed and desired uses.

We have said, that individuals are always solicitous to obtain the quantity of every article they have been accustomed to enjoy, and therefore, if this be such an article, there will be an effort made by each individual, to obtain his accustomed quantity, which efforts will produce an advance in the price, and all the consequences before described. If the advance should not be sufficient to encourage its procurement, the quantity in market will continually diminish, until the solicitude of purchasers shall make the article advance in price sufficiently to induce its production, or until the article shall entirely vanish from the possession of man.

It therefore appears, that no article can long exist in our possession, without it commands a price in market that bears a due reference to the difficulty of its production.

It may also be shown, that the exchangeable value an article bears in market can never long exist at a price above what the real difficulty of its production entitles it to command, because, to value one article above what the difficulty of its production dictates, is to undervalue all other articles that may be exchanged for it.

Thus, if it be more difficult to procure a hundred weight of lead than a ton weight of iron, and if, notwithstanding this, a ton weight of iron may be exchanged in market for more capital than a hundred weight of lead, it will follow, that it may be exchanged for more lead than a hundred weight. The lead is, of course, undervalued, because in its exchange for iron, it does not command so large a quantity as the superior difficulty of its production entitles it to command. The same will apply to every article under like circumstances, that the iron may be exchanged for. The natural consequence will be, that many will cease from procuring the articles thus undervalued, and employ their industry in procuring the iron, that is overvalued. The quantity of iron will, therefore, increase in market, whilst the quantity of the other articles will diminish. An increase in the quantity of the iron will produce a surplusage in market, because we have already shown, that the quantity of any article for which man has a solicitude, is the quantity for which he has known and accustomed uses. He cannot have any accus-

tomed uses for a larger quantity than he has been in the habit of possessing, and accordingly when the quantity produced exceeds the quantity he has been in the habit of possessing, the excess will be a quantity for which he has no habitual uses, and it will, therefore, be a surplus in market, until new uses are discovered for it. The operation of a surplus of any article, is to occasion a depreciation in its price, from the efforts made by each producer to dispose of the whole quantity in his possession. These efforts are attended by some offer of inducement to the purchasers to make them buy a larger quantity than they have been accustomed to purchase, and this inducement is a depreciation of the price. The price will, therefore, depreciate in proportion to the extent of the surplus, and the consequent efforts necessary for the producers to make in its disposal. It will also continue to depreciate so long as the quantity continues to increase, because, although the quantity of an article put into our possession, will eventually give rise to uses sufficient to embrace it, yet if the quantity is continually increasing, there must always be a surplus. By the time uses are appropriated to the surplus that existed last year, the additional quantity produced this year, over what was produced the last, will be a new surplus, and the same may be said of each succeeding year, in which the quantity shall continue to augment. This depreciation in price, will not arrest the production of the article, until it shall have declined in price, below its true relative value, and then from the causes we before stated, it will gradually cease from being produced, until it acquire a value regulated by the difficulty of its production. The quantity of iron, therefore, will be increased in market, until the surplus, thus created, will, most probably, make it fall even below its true relative value.

The quantity of Capital in a Nation is distinct from the amount of it.

The quantity of capital in a nation may be considered as meaning the number of the objects of desire possessed by the inhabitants. The value of this capital relates to the principle by which the exchanges of articles are effected one for the other. In an estimate of the value of capital, it is generally conveyed to us by stating the number of dollars, or other coins, the articles can be exchanged for in market. From a long acquaintance with these exchanges, a person is enabled to state, pretty correctly, the amount in dollars that can be obtained for any article of desire. Such a person might, therefore, examine my capital, and inform me of the number of dollars it would bring

in market. Were an inventory to be made of every article of capital in a nation, this person might, by the same knowledge, state the amount in dollars that the whole could be exchanged for, and thereby give us an idea of the relative value of the whole national capital. It would be perfectly immaterial to such a statement, whether so many dollars actually existed in the nation, or even in the world. It merely specifies the amount that such articles would bring, did so many dollars exist, and did the state of exchanges continue as at present. If it be said that one nation is possessed of a capital worth ten millions of dollars, and that another is possessed of a capital worth twenty millions, a person will not be able to know which nation has the most capital. Because, owing to the different relative value which the same articles bear to each other in different countries, it requires a knowledge of the rate of exchanges in each country, before you can understand the quantity of capital that would be considered equivalent to the ten millions, or the twenty millions. For instance, dollars may be of such difficult procurement in the nation of ten millions, and all other articles of such easy procurement, that the amount of capital considered an equivalent for ten millions of dollars might far exceed the amount of capital that in the other nation (where dollars are less difficult of procurement) would be considered an equivalent for twenty millions, or perhaps a hundred millions.

Commerce regulates the rates of Exchanges.

Where commerce is permitted, articles that are of more difficult procurement in one nation than they are in another, are generally transported from the country where they are more easily procured, to the country where they are less easily procured; which trade continues until the articles, by means of this imported quantity, sink to the value they bear in the country of easy procurement. Commerce, therefore, serves to regulate the exchanges between articles; not by the relative difficulty of their procurement in the nations where they are exchanged, but by the relative difficulty of their procurement in those nations where they are each most easily procured; and makes nearly the relative value of any two articles the same in every market on the globe.

The easy procurement of an article in any one nation, benefits every other country.

An object of desire by being procurable in any nation with unusual facility, will continue to be exported to every other, until it shall have brought the article to bear a value in every market regulated by this facility. The cause of its being thus ex-

ported will be easily conceived, for we have already shown that when the exchangeable value of an article in market rises above what is dictated by the relative difficulty of its procurement, the production of it will increase, since every individual will employ his industry in obtaining that, which bears a great value, if he can obtain it with as little difficulty as he can another that bears a less value. If therefore an individual finds that he can procure and transport an article to some foreign nation, and exchange it there for more capital than the relative difficulty in the procurement and transportation of it ought to command, he will continue procuring and transporting it until the inducement shall cease from operating, which will in time happen from the surplus that will be caused, and from the other various well known operations of commerce. The nation will, however, continue obtaining its supply from this quarter, and the price of the article will eventually be regulated by the true difficulty of its procurement and transportation. Such, at least, is the tendency of commerce, but we find in practice, that this theory is frequently interrupted and counteracted by monopolies, by national restraints, by wars, and by various obstructions which retard its free operations.

It is reported of the Dutch, and adverted to by the Earl of Lauderdale, that when they were in the sole possession of the countries producing nutmegs, they annually destroyed a certain portion of the nutmegs produced, for the purpose of creating an artificial scarcity. They had found by experience, that whenever the quantity of an article in market fell short of the quantity required for known and accustomed uses, the price would rise not only sufficient to make the reduced quantity bring an amount as large as the whole quantity usually brought, but also a much larger amount. For, agreeably to what we have formerly said, and to what the Earl of Lauderdale has said on the same subject, each purchaser will be solicitous to obtain his accustomed quantity, and many, for the purpose of obtaining it, will give a price not dictated by the relative difficulty of procurement in the articles exchanged, but governed, solely by their desire for the article. That is, they will give any amount of specie that they would rather part with, than leave this desire ungratified. This plan of the Dutch, therefore, counteracted the operations of commerce, for it produced a scarcity in foreign markets, which would not otherwise have existed. From what we formerly said on the subject of scarce and plenty, it will appear, that although this stratagem might operate to the immediate advantage of its authors, yet it could not be permanent. The cause of the advance in price of their nutmegs, was the desire of individuals to obtain their accustomed quantity. To effect this, they outbid each other in market, because the diminished quantity in

which the article existed, rendered his accustomed quantity unattainable by every individual. This contest amongst individuals would gradually subside as each became accustomed to the quantity he was enabled to obtain under this new order of things, and whenever each become perfectly reconciled, the contest would entirely cease, together with all the effects it produced.

An individual may increase his Wealth without increasing his Possessions.

The principal object of inserting the foregoing, was to shew, that an increase of the articles of capital, is very distinct from an increase of the amount that capital is worth. By the above instance, we perceive that a diminution of the articles composing the capital of individuals, may increase the exchangeable value of the remainder, so as to make it produce more than the whole quantity could have been exchanged for before its diminution. Every person may be said to have two ways of increasing his wealth, without enlarging his possessions. And first, any event that should increase the value of the articles composing his capital, would of course enable him to exchange them for a greater quantity of other articles, the value of which had not been increased. Secondly, any event that should diminish the value of the capital of others, without diminishing the value of the kind of capital in his possession, would also enable him to obtain a greater quantity of these depreciated articles than he otherwise could have obtained. For example, did I possess any article, we will say a horse; the more valuable horses become, the more it will increase the importance of my possessions; but, on the other hand, did I desire to purchase a horse, the less valuable they become, the less capital I shall have to part with in its acquisition, and accordingly the more I shall be benefitted. It therefore appears, that when an article rises in price, it benefits the producers to the amount that it injures the consumers, and that when an article depreciates in price, it has a reverse operation—that is, it benefits the consumers to the amount that it injures the producers.

An increased facility in the procurement of any article, benefits the consumers.

Could we devise any measure whereby the price of an article should be depreciated without injuring the producers, its whole operation would be on the consumers. They would be benefitted as much as though the producers were injured. The cause of their benefit is the depreciation in the value of the articles they desire, and not the injury this depreciation may do the producers.

Thus, did I desire to ride in a coach, and had an annual income of only a thousand dollars, I should be benefitted by any measure that would so reduce the relative value of horses, carriages, and provender, when compared with specie, as would enable me to gratify my desire. If this object could be attained without injuring the coach-maker, the horse-dealer, and the producer of provender, it would then appear that I, and all others in the same situation, would be benefitted, and that no person would be injured.

If it be now inquired, how such an event can possibly happen, it may be answered, that from former considerations, it appears that the exchangeable value of all articles in market, is ultimately governed by the relative difficulty of their procurement. Accordingly, any discovery, or improvement, that should go to increase the facility of procuring any article, would also diminish its relative value, when compared with an article the procurement of which had not been facilitated. This diminution in the comparative value, does also; not injure the producers, for if the producers of any article, say hay and oats, should, by any newly discovered method, be enabled to produce double the quantity of these articles on the same land, and with the same expense of implements, and difficulty of production, that they formerly employed in producing only half the quantity, it would be no loss to them if they sold this double quantity for the capital they formerly sold the half for. The like reasoning may be applied to the producers of all other articles, and it accordingly appears, that any discovery or improvement that increases the facility in the production of any article, benefits the consumers, and does not injure the producers.

Any depreciation in price not arising from an increased facility of production, must be but temporary.

A temporary depreciation in the relative value of an article may arise from a surplus quantity being accidentally produced, (agreeably to what we have formerly said on this subject) or from a diminution in the demand, arising from a discontinuance of some of the uses to which it was formerly applied. That this latter cause should produce a depreciation in the price of an article, may be readily conceived, when we reflect that it operates to produce a surplus quantity in market.—That is, owing to the diminished demand, the quantity in market be-

comes too large for the desired uses, and therefore, it calls forth an effort in the producers, to part with the whole quantity they have produced, and this effort is a depreciation of price. If this depreciation makes the article fall below its true relative value, its production will gradually diminish, until a scarcity shall cause it to regain its true exchangeable value, or until it shall entirely cease from existing, which latter event will, also, happen, if the article has (from any cause) ceased from being an object of our desire. It therefore appears, that although a depreciation in price does operate to the benefit of consumers, yet if it is not caused by some increased facility in the production of the article, it will be but temporary, and the consumers will soon be forced by the operation of a scarcity, either to relinquish the benefit which they enjoyed at the cost of the producers,—or to relinquish the enjoyment of the article itself.

The depreciation of an article below its true relative value, is generally followed by its appreciation above its true relative value.

We have shown, that when an article falls below its true relative value, its production will gradually diminish, until a scarcity causes a sufficient advance in the price to induce individuals to resume its production. As they do not, however, in a free community, act by any concert, it generally happens, that when the price advances to a height sufficient to induce its reproduction, so many individuals (from ignorance of each other's pursuits) are tempted to engage in its procurement, that the quantity produced, is not only sufficient to obviate the scarcity, but also to occasion a great surplus. The surplus thus produced, will operate to depreciate the article, until it again falls below its true relative value, when another scarcity will be produced by the same operation that produced the former.

The incessant fluctuation which this theory supposes in the exchangeable value of articles in market, may also (it is believed) be found in actual practice.

An increased difficulty in the procurement of an article, injures the consumers, without benefitting the producers.

If an article increase in value, it has been said to benefit the producers, and to injure the consumers. The producers receive in exchange for their article more capital than they

formerly received. They are benefitted to the amount of this excess, and the consumers are injured to the same amount. If, however, any event could be devised, whereby we could increase the value of an article without injuring the consumers, it would appear that its whole operation would be on the producers, and they would be benefitted.

If it be now inquired how such an event can be effected ? it may be answered, that the permanent value of every article in market is ultimately governed by the relative difficulty of its procurement, and therefore, no measure can increase the relative value of an article, when compared with other articles, without it increase the difficulty of the procurement of this appreciated article. Accordingly, no measure can be devised to increase permanently the relative value of any article so as to benefit either the producers or the consumers, because, if the value of the article rise on account of some increased difficulty of its procurement, it will follow that the producers are merely compensated, by this rise, for the increased difficulty.

If they can only produce fifty weight of lead by the same exertions that formerly gave them one hundred weight, they will not be benefitted by the change, without they receive more capital for the fifty weight, than they formerly received for the one hundred weight. They will, however, not receive more, but they will receive just the same amount, and therefore they will not be benefitted by the alteration, neither will they be injured. Its whole operation will fall on the consumers, and they will be injured to the amount that the increased difficulty makes them pay in the purchase of the article over what they formerly paid.

An event that should increase the facility of procuring all the objects of desire would be a universal benefit : one that should increase the difficulty of their procurement, would be a universal injury.

It appears, from what has been said, that the only event which can permanently increase the value of an article, is some increased difficulty in the procurement of it, which injures the consumers without benefitting the producers. If we look upon the producer of an article as being himself a consumer of various articles, (and which in fact he is) it will follow that any event which should increase the difficulty experienced in the procurement of every article, would be an universal injury. In the same way it may be shown that any event that should increase the facility of procuring every object of desire, would be a universal benefit.

An increased facility in the production of any article, not only makes it procurable for less capital, but also makes it exist in greater plenty.

Although every individual feels conscious that he should be benefitted by an increased facility in the procurement of the objects of his desire, and in their consequent depreciation, yet he would choose that the articles which form his capital should remain unfacilitated, and of course undepreciated. In this event, the relative value of his capital would be increased ; but if the articles which form his capital were also depreciated, they would not possess a greater relative value than there did before this universal depreciation. Thus, if the relative value of a bushel of wheat was equal to a dollar, the holder of dollars would be benefitted by the relative value of wheat sinking below this standard. We will say, that on account of some increased facility in the procurement of wheat, its relative value shall fall, so that a dollar will be considered equivalent to two bushels of it. We will say farther, that this increased facility shall extend itself to all other articles excepting silver, and that a dollar shall be exchangeable in market for double the quantity of any article that it formerly could be exchanged for. Should a proposition then be made to the holders of dollars, whereby the facility in their production could also be increased, so as to make them again bear the same relative value to other articles which they had formerly borne, the holders of them would discountenance the project, because they would perceive that they should immediately lose the advantage this state of things gave to them. Every person in the nation who were not holders of dollars, would, however, give it their support, and from the same principle that the others discountenance it—That is, the holders of wheat, who are forced to give two bushels for one dollar, would be glad of any measure that should make this quantity of wheat exchangeable for two dollars. We will say that the project shall at length be adopted —Every article will then again assume its former relative value. The holders of dollars will no longer be able to obtain two bushels of wheat for their dollar, but will only be able to obtain one bushel. It may now be inquired what advantage this universal depreciation has affected? The advantage will be found in the increased facility of procuring these articles, and in the increased quantity of capital each individual will possess. He who formerly could procure in any one year, only one hundred bushels of wheat and twenty lbs. of gold, will now be able to obtain without any increased exertions, two hundred bushels of wheat and forty lbs. of gold. Therefore, although the relative value of each article

is as it heretofore existed, yet by the objects of desire being doubled in quantity, it enables each individual to indulge in more of them, and thereby administers to the pleasures of his existence.

It would be injurious to men of stationary fortunes.

This change in the facility of procuring articles, notwithstanding it continued to preserve their accustomed relative value, would still affect the relative circumstances of men so far as regards our ideas of poor and rich.

The individual possessed of an annual income of a thousand dollars the year, and who should be removed by his habits and education from pursuing the means of increasing his fortune, would soon find that those in active life, who were formerly equal, or perhaps inferior to himself in wealth, would, by the increased facility of procuring the objects of desire, soon attain to the amount of his fortune, and as quickly surpass it. Although this would not absolutely take from his possessions, yet in the estimation of the world, he would soon be considered poorer than formerly. For rich and poor does not depend upon any precise quantity of capital, but upon a quantity that is either large or small, in proportion to that possessed by others. There are few persons possessed of so small a fortune as not to be entitled to the appellation of rich, in some societies to which they could remove. So long, however, as they refrain from this removal, they feel a sense of poverty from contrasting their enjoyments with those of their more fortunate neighbours.

An increased difficulty in the procurement of any article, not only makes it exchangeable for more capital, but also makes it exist in greater scarcity.

From what we have already said, on the opposite side of this proposition, the disadvantages resulting from the present one will readily be conceived. An universal appreciation in the value of articles produced by an increased difficulty in their procurement, although it should preserve the accustomed relative value of articles one to the other, would prove disadvantageous from the increased difficulty required in the procurement of them, and from the consequent smallness of the quantity any one individual would be enabled to procure.

General Conclusions.

From what we have now said on the subject of a rise and fall in the value of articles, we may perhaps come to the following general conclusions :—

1st. A rise in the price of any article, benefits the persons in whose hands it appreciates, but it injures all the consumers of it.

2d. A fall in the price of any article injures the persons in whose hands it depreciates, but it benefits all the consumers of it.

3d. If these fluctuations in price do not proceed from any increased facility or difficulty in the production of the article, they will be but of temporary duration; and from the frequency that every individual is both benefitted and injured by such occasional variations, they may in the course of his life balance each other in the injury and benefit they bring to him.

4th. A depreciation in price produced by any increased facility in the procurement of objects, is permanently beneficial, although it subjects the persons in whose hands they depreciate to some individual loss.

5th. An appreciation in price produced by any increased difficulty in the procurement of articles, is permanently prejudicial, although it occasions to the persons in whose hands they appreciate some individual gain.

6th. If it be found in practice, that these fluctuations in price produce to an individual, in the operations of his whole life, as much benefit as injury, then the advantages and disadvantages resulting from an increased difficulty or facility in the procurement of articles may be judged of by their permanent effects, without any deduction for individual loss or gain at the commencement, and an increased facility in the procurement of articles be accordingly considered as wholly beneficial, and an increased difficulty in their procurement as wholly prejudicial.

Capital, real and artificial.

An article of capital may be called real, when it is desired for itself, and when the value of it in market has reference to the facility or difficulty of its production. It may be called artificial when it is desired for some object that it represents, and when the value it bears in market has no reference to the facility of its production, but is governed by the facility or difficulty in the production of the article it represents. Bank-notes, govern-

ment securities and notes of individuals, may be considered as of this latter sort.

The quantity of Real Capital produced in a Nation will bear some proportion to the number of its Inhabitants.

Experience teaches us that men of different nations seldom differ much from each other in their natural powers. The quantity of real capital therefore, which a nation is enabled to procure, must be governed by the number of individuals in the nation, and that nation will, in all probability, contain the most capital, which contains the most inhabitants. Accidental causes of difference prevent, however, the free operation of this theory. Personal ease may be a greater object of desire in one nation than it is in another; and the facility with which objects are procurable in different nations, will also have an operation. Were the powers of each man, in any nation, to be suddenly doubled, it may be readily conceived that there would be as many objects of desire produced in that nation, as there would be in another with twice the number of inhabitants whose powers should be unincreased. The same result would follow from any farther increase of power: and were the powers of one man suddenly increased to the strength, skill, and ingenuity possessed by ten ordinary men, this one would produce as much capital as the ten men would. It therefore appears, that there is no way of increasing the production of real capital in a nation beyond the whole industry of its inhabitants, but by increasing their powers. This increase of power is effected by machinery. The articles of capital in the present possession of man, are much more numerous than he could have possibly possessed by his unaided powers. It is also impossible to foresee the extent of capital he will be enabled to acquire by means of such inventions. The use of machinery has already so increased the facility in the production of various articles, that they are now enjoyed by numerous individuals, who could not otherwise have participated in them, and they are enjoyed by all, to a much greater extent than they could otherwise have possibly been.

Artificial Capital,

Must be produced with less labour, skill, and ingenuity, than would be required in the production of the objects it represents. It would not otherwise be a means of increasing the capital of a nation beyond the natural increase, because the labour, skill and

ingenuity employed in the production of these representatives, would, if not so engaged, be employed in producing the articles represented. On the other hand, if there is less difficulty in making the representative than there is in producing the article represented, there will be a gain of capital by the operation. The more widely the facility of producing the artificial capital differs from the difficulty of producing the real, the more will be gained by its use. If a man can make in one day a thousand dollars in bank-notes, and cannot produce from the mines the same number of dollars in less time than twenty days, it may be said that nineteen days labour are saved to the nation by the use of the representative. Were it to take forty days to procure the dollars, then thirty-nine days would be saved. If we review these operations in practice, and see the facility with which even many millions, of artificial capital can be produced compared to the vast exertions required in the production of but a small amount of real capital, we may easily come to the conclusion that the use of representatives does increase the capital of a nation to an extent, not otherwise attainable, making that of the present period equal to that which it would have taken the united and continued efforts of succeeding generations to have made for some remote future period.

Gold and Silver are no greater representatives of other articles, than other articles are representatives of them.

It is a favourite theory with many persons, that gold and silver represent all other articles of capital. If we examine their actual operations, we shall, however, find that they are no more entitled to this appellation, than any other articles of capital. It is true, that an individual, with gold or silver in his possession, may go into market and exchange them for any other article he may desire, but this is not a property peculiar to gold and silver, but is possessed equally by every other object of desire. The possessor of a load of wheat may as well term his capital a representative of gold and silver, as the possessor of these metals may term them a representative of wheat, since it is equally certain that he can exchange his wheat for these metals, as it is that the owner of gold and silver can exchange them for wheat.

Machinery.

The introduction of machinery has, in many countries, met with much opposition from the labourers, whose exertions it

went to supplant. Their labour being an object of desire on account of certain uses it had been accustomed to be applied to, did, when these uses ceased from existing, become a surplus in market, and was no longer an object of desire. What was formerly said of other capital, will, nevertheless, apply to labour, that the quantity in market will in time dictate its use, and that when any particular use to which it has been applied shall cease from existing, new uses will be discovered sufficient to absorb it. Until these new uses, however, are discovered, the supplanted labour will constitute a surplus. This temporary disadvantage, joined to the great reluctance we find in man to abandon any employment to which he has been long accustomed, and to adopt any new pursuit which generally requires a fresh pupilage, are sufficient to make those on whom they operate, inimical to the measure which produces them.

Our experience, however, may sufficiently convince us, that few advantages are ever introduced into society, but they do in some of their bearings, operate unprofitably to individuals.

Machinery increases the Productions of a Nation.

Were the individuals thrown out of employ to cease from labour of any kind, it would appear that the amount of capital produced in the nation, would not be less than formerly, because the capital these individuals had been in the habit of producing, would now be produced by machinery. But we find from experience, that the persons thus supplanted, gradually become producers of other articles. The national capital is then increased by the use of the machinery, not only to the amount which the machinery produces, beyond what the supplanted labour formerly produced, but also to the amount that this supplanted labour now produces in other articles.

The suspension of any accustomed use, would produce a surplus of labour in this country, the same as in every other country.

It is generally thought, that in this country, the advantages of machinery are more obvious, and also attended with less individual injury than they are in more populous nations, and where labour possesses less exchangeable value. It is certain, that no use of machinery here has ever produced any popular commotion. The same result has not always followed its use in other countries. It is supposed that the great demand for labour in the United States, renders individuals indifferent to the introduction

of machinery, as a sufficient use immediately exists for the labour that may be thus supplanted. The quantity of labour, however, in this, as in every other country, for which individuals will be really solicitous, is that quantity which they are accustomed to apply to desired uses. Labour, like every other article, is either scarce or plenty, in proportion as the quantity exceeds or falls short of supplying these accustomed uses—and in this country, as in all other countries, the quantity will be continually acted on by various uses for it ceasing, and also by new uses as continually arising. Should any event suddenly occur, either from the introduction of machinery or any other cause, whereby the uses should cease, to which any large quantity of labour had been habitually applied, we should find that this quantity would produce a surplus in market, and lower its price below the true relative value, until new uses should be found sufficient to absorb it. With regard to the use of machinery, and the unconcern evinced at its introduction, it may be observed, that although there are many labour-saving machines in this country, yet they did not at their introduction here supplant any labour. The machines, as they were either introduced or invented, produced certain articles, the production of which had never given employ to the labour of this country. No labour was therefore supplanted by their use, and of course no individual injury was sustained. In other countries this has not always been the case, and machines have been introduced to supply uses to which much labour had been formerly applied.

The first instance within immediate recollection, when the uses for any considerable quantity of labour were suspended, was at the time of the general embargo. The effects of this suspension were clearly visible, and especially in the labour that had been employed in navigation and in ship-building.

The great reluctance which men evince to the leaving of any habitual occupation, made new uses to these persons extremely unpleasant, and many of them did in consequence thereof, leave the United States, and resort to the Canadas, and other countries, where uses still existed for their labour, in the way it had been accustomed to act. Those that remained, being too numerous for the accustomed uses that still existed for them, greatly over-supplied the desired quantity, and their labour did, in consequence, exceedingly depreciate.

We have, heretofore, shown, that a surplus quantity of any article, will dictate a use sufficient to absorb it, so that in a short time, the surplus will cease from existing. This would no doubt have been the operation of the present labour, and the surplus in market did gradually diminish, but its diminution was retarded from a continued expectation that the former

uses would speedily revive, and that a resort to new vocations would be, thereby, unnecessary.

From this view of the operation of the embargo, we may safely come to the conclusion, that labour is, in this country, as in all other countries, subject to become surplus, whenever any of the accustomed and great uses for it shall be suspended, or otherwise cease from existing;—that the quantity of labour we possess is the quantity for which we have accustomed uses, and when this quantity becomes suddenly increased, it requires time to have desired uses appropriated to it.

War increases the price of Labour.

Although so many uses for labour cease by the suspension of commerce, consequent to a state of war, yet we find that the price of labour generally advances. This arises from the great number of new uses created for it by the war itself.

The advance in the price of labour shows, whenever it happens, that the quantity abstracted by government, is larger than the quantity for which uses have ceased. Were it otherwise, there would be a surplus quantity in market, and the price would depreciate.

We have said that an insufficiency of any article to supply the accustomed uses, will cause its appreciation in market, from the efforts made by individuals to obtain their accustomed quantity.—We have also said, that when the quantity falls short of supplying the accustomed uses, that the uses will, in time, accommodate themselves to the quantity that can be obtained, and that the efforts of individuals to obtain more, will gradually cease as they become accustomed to the diminished quantity. It might be, therefore, inferred, that in a state of war, the nation would soon become familiarized to the diminished quantity of labour produced by the requirements of government, and that it would accordingly, soon fall to its accustomed relative value.

Our experience, however, convinces us, that this is not the operation of war, and on the contrary, labour is continually enhancing in price. The cause will be perfectly reconcileable to our theory, when we reflect that in a state of war, the quantity of labour abstracted by government in any one year, is not the sole quantity required. Their abstractions are continually increasing. Did the quantity they are enabled to abstract in any one year, form the whole quantity they desire, and did

they continually keep this quantity out of market, by appropriating it to their own use, then the remainder would become the quantity to which the nation would be habituated, and there would soon be no efforts made by individuals to obtain more than they had been enabled to obtain under this new order of things, and the advance in price which these efforts had caused, would of course cease with the efforts that caused it. But government keep out of market not only the quantity they abstract in any one year, but they are continually making fresh abstractions to supply the place of that quantity put out of existence by the casualties and business of war, and also to supply the increased wants which generally grow during the whole continuance of a war. The quantity of labour in market is therefore, continually decreasing, and the efforts made by individuals, are as continually called forth, during the whole progress of the war, as they were when government first commenced their abstractions.

A rise in the price of Labour, produced by an insufficiency of quantity to supply the habitual uses, must also cause a rise in price of each of those articles that the labour was used in producing.

For, if the labour remaining in market be insufficient for the accustomed uses, it will follow, that many objects of desire will not be produced, that the labour abstracted by government was formerly employed in producing, and an insufficiency in the quantity of each of these objects will accordingly cause them to appreciate in market, by the same operation that the labour itself appreciates.

The incessant abstractions which we have before spoken of as made by government, will also cause the quantity of these articles incessantly to diminish in market, and therefore, preserve them in the appreciated state which this first diminution gave rise to.

Governments can seldom abstract without compulsion, the quantity of labour they desire.

It has been said that a rise in the price of any article is occasioned by the efforts made to obtain it. In a state of war, the quantity of labour in market becomes too small for the desired uses, on account of the new ones found for it by government. They are, however, seldom enabled to obtain without con-

straint the quantity of labour they desire. However great the inducement they may offer, it only operates to enable them to abstract a small portion. The nation soon feels its absences from market, and the efforts of individuals to obtain their accustomed quantity, makes it readily advance sufficient to counteract the inducements offered by government for its further abstraction.

We have seen this exemplified in our late recruiting, where, although the inducements offered by government are much superior to what they were at the commencement of the war, yet the recruiting does not progress more successfully than it did at the commencement of the old regulation. The inducements offered by individuals to retain labour, has advanced with the efforts of government to abstract it. We may also conceive, that however large any new inducement might be that government should offer, yet, that after some short time, the efforts made by individuals to obtain labour for their accustomed uses, would produce a rise sufficient to arrest its abstraction. But the inducements of government have their desired operation until the price given by individuals advances to meet them; and as this price does not advance by any concerted plan amongst individuals, but by gradual progression, it naturally follows that the more the inducements of government exceed the cotemporary price paid by individuals, the longer will be the period before this price overtakes them, and the more labour government will have been enabled to abstract.

A rise in the price of labour causes an advance in the price of every article produced by labour.

It is this overbidding in the price of labour that affects the value of articles in market, even more than they are affected by the quantity of labour actually abstracted. When labour advances in price, the articles produced by labour must also advance, even though the quantity of them produced remain undiminished. Because, if I am a hatter, and can in a day produce a man's hat, the price I shall demand for the hat will be the cost of the materials of which it is composed, and the price of my day's labour superadded. If the materials cost me two dollars, and my labour will bring in market one dollar, the hat must produce to me three dollars, or I shall cease from making. But if by the exertions of government, or by any other means, the price of labour should advance so that I could obtain in market two dollars a day for my services, then the price I should ask for the hat would be four dollars, and if I could not obtain that, I should

shortly cease from making hats, and dispose of my labour where I could obtain two dollars the day for it.

By this operation, it appears that the price of all articles produced by labour, must appreciate with it, or they will gradually cease from being produced, until a scarcity shall force their appreciation by the efforts of consumers to obtain them.

War produces a rise in the value of all articles, except specie.

The tendency of war is not to destroy the settled relative value of articles, one to the other, but to cause them all to appreciate. It is, however, a lengthy period before its operation extends to every article, and many individuals are accordingly benefitted in the appreciation of the articles which compose their capital, whilst others are injured, whose capital may not have appreciated, and who may be daily forced to make exchanges before this event takes effect, and to accept of less quantities than they formerly obtained. After this length of time has elapsed, and every article has so appreciated, that the former relative value is again restored, the new state of things will be a matter of indifference to each individual. If he could formerly obtain as much of any article in exchange for one dollar as he now can for two, it will follow, that he does not now make a more favourable exchange when he obtains two dollars, than he did formerly when he obtained but one. The only difference is, that he obtains more of the article of specie, but not more of any other article that he may desire to exchange the specie for.

If, however, such a period were to arrive, when two dollars would produce no more capital in exchange than one dollar previously did, it would show that dollars had not participated in the general appreciation, because if they had, such a result could not follow, that two of them should not be exchangeable for more than one could formerly be exchanged for. Nevertheless, such a result will, it is believed, be found in practice, in all nations where the expenses of war are furnished by loans, and where representative specie is in the practice of being produced.

A state of war has been shown to increase the price of articles, from the following causes and effects.

First, The application of labour, and many other articles, iron, lead, horses, sulphur, &c. to various new uses called into existence by the operations of war.

EFFECT.

A diminution in the production of all the objects of desire, which the labour employed by government had formerly produced, and their consequent appreciation. Also, a diminution in the quantity left for individuals, of the iron, lead, horses, and other articles which the war has caused new uses for, and the consequent appreciation in the price of each of them.

Secondly. A continued and incessant effort made by government to abstract labour, and a like continued and incessant effort made by individuals to detain it.

EFFECT.

A rise in the price of labour, occasioned by these efforts, and a like rise in all the articles it enters into as a component part.

To make an article of capital, therefore, rise in value by the operations of war, it must be effected by one of these accidents, and to discover whether the specie of a nation is thus affected, we must examine first, whether the new state of things produced by war, furnishes a sufficient number of new uses for it to compensate for the uses suspended by the war.

Secondly, Whether the price paid for the production of it, is increased by the appreciation which the efforts of government and of individuals cause in the price of labour.

Were we to admit that the new uses found for specie in the United States, since the present war, have been insufficient to supply the place of those uses suspended by the war, and by the consequent state of commerce, we might readily conceive that there would be a surplus quantity in market, and that the exchangeable price would fall. Nor would it regain its accustomed relative value, until the surplus had dictated uses for itself, and the pursuit of them had become an object of our solicitude.

On the other hand, were we to admit that the uses found for specie since the war, have more than counterbalanced the uses which the war has suspended, it would follow that there will be an insufficiency in market to supply the accustomed uses, and that the exchangeable value must accordingly rise, from the efforts made by each individual to obtain his accustomed quantity.

We have already shown the progress of this rise in the article of labour, and in those other articles which the uses occasioned by war, generally make scarce in market.

In nations, however, where a representative specie capital is produced and in circulation, specie is an exception from the articles which rise from an increase of use. Because, from the great facility in the production of the representative, an increased demand is immediately met by an increased production sufficient to answer it. It therefore appears, that although a state of war may produce an increase in the value of articles for which no representative can answer, yet in specie, which is differently circumstanced, no increase in the demand or other operation of war, will probably produce any increase in the price—More especially since the labour employed in the production of the representative bears so trifling a proportion to the value of the thing produced, that no conceivable advance in the value of that article, can affect its production. Accordingly, if any articles of capital may now be exchanged for more specie than formerly, it will indicate that specie possesses less relative value than formerly, occasioned by the appreciation of these articles, and by specie remaining unappreciated. That such is the case in present practice, will, I believe, agree with our actual experience.

Were it not for the representative, government could not abstract much specie from market.

Were there no specie in the nation, but what had to be produced with the same difficulty that actual specie takes in its production, it would then be influenced by any unusual demand in the same way that labour and all other articles are influenced. That is, should government suddenly desire the use of twenty millions of dollars, and there be no surplus specie in market, it will follow that it must be taken from that quantity for which there are accustomed, and of course desired uses. To produce it from the mines to answer this sudden demand, is impossible, in practice. The only way a government could obtain it, would be by compulsory taxes, or by offering individuals more for the use of it than they had been accustomed to receive in its employ. Specie would therefore rise in price, equal to the additional inducements offered for it by government. It would be the same with that article then, that it now is with labour. The desires of individuals to obtain their accustomed quantities, would soon make its price rise with them to the price offered by government, and thereby prevent its abstraction to any great extent by any other means than by those that are compulsory.

Any new uses for specie, that could not be answered by its representative, would increase its value in market.

When we say that the requirements of specie by government do not increase its value, we of course suppose that the use of a representative will answer all the purposes required. Were the contrary of this supposition to be the fact, the value of specie would rise by this new demand, the same as any other article.

Should the uses required by government be to pay troops in a foreign nation, or to export it for any other purposes, where a representative would not answer, their efforts would then be directed to the obtainment of the actual specie, and all the consequences would ensue which we have before considered. From our actual experience on this subject, we may readily conceive that the obtaining of any large quantity would be attended with a great appreciation of its value, for we have seen that when the requirements of commerce presented inducements for its shipment to China and the East Indies, that the efforts to obtain it, even in an inconsiderable quantity, always occasioned a rise in its exchangeable value of about four per cent. We see, that the present efforts of government to acquire specie, has not produced any rise in its value. The cause must be found either in their not abstracting so much as has been thrown from employ by the suspension of commerce, or in the additional demand being answered by an increase in the quantity affected by the production of a representative.

A law to prevent the farther production of these representatives, would cause specie to appreciate, on any increase in the demand for it.

We will suppose such a law to be in operation, and we will also suppose that government shall require a certain quantity of specie for some new uses, it will then follow that if they obtain it, they must take it from the quantity which is in market, and for which there are accustomed and desired uses, because we have already shown that the quantity in market is the quantity for which there are accustomed and desired uses, and therefore if no unusual occurrence has caused a surplus to exist in market, the quantity desired by government, will, if obtained, be abstracted from some uses, to which individuals are habituated. We will suppose this to be the case, and that there shall be no specie in market, and no representative of it, but what

individuals have desired and accustomed uses for. It will then follow, that the efforts of government to obtain any, will not be furthered by the existence of the representatives which are in market, because there are desired uses for them, the same as there are for the specie itself, and the reluctance to part from them will render as great an effort necessary in their obtainment as in the obtainment of the actual dollars. If the efforts of government to abstract specie be successful, a scarcity will be produced in market, because the law before spoken of will prevent an incre sed production to meet this new demand. The scarcity, that is, the insufficiency to supply the accustomed uses, will cause it to appreciate from the efforts of individuals to obtain their accustomed quantities, and if the requirements of government make them desirous to abstract any large quantity, they will in all probability be unable to obtain it even at any price, (the same as is now experienced in labour) from the counteracting efforts of individuals to detain it.

If the requirements of government should make it necessary for them each year to make a new abstraction (as we know they would, under a continuance of war) then their efforts, and those of individuals, would continue incessant, and the quantity of specie remaining for accustomed uses, becoming continually less, would never allow sufficient time between the period of these abstractions, for the nation to become familiarized to the diminished quantities, and the article would accordingly be kept in a state of continued appreciation (and most probably would continue appreciating) during the whole continuance of the war.

The price at which government is enabled to obtain specie, (where a representative to answer the purpose can be produced) is regulated by the price paid to the banks for its production.

A sufficient inducement will be required from government by individuals to make them instrumental in calling into existence the amount of specie desired. Therefore, whatever the price may be, at which the banks will produce it, the price paid by government must always be something in advance. This is uniformly the operation in England during a state of war. The price given by government for the specie they borrow, is always more than the four per cent. the lenders have to pay the national bank for its creation.

Government Loans cause the Creation of Specie.

Whenever government create a loan, it causes a new use for specie, which must be supplied either by an abstraction from the quantity in market, or by a new creation.

We have already shown, that if there is not a surplus existing in market, its abstraction will be resisted, and that a new creation will be excited to satisfy the new use. This may be more readily conceived, when we reflect that the creation of bank-notes, in a nation where they may be created, can have no other cause for restraint, but a want of some sufficiently profitable use to which they can be applied.

So long as individuals can make in their employment, more than they have to pay the banks in their obtainment, so long will they be anxious to obtain them.

It is this circumstance of profit that regulates the desires of individuals, and were the amount illimitable, that banks had the power to create, the precise amount they would be called upon to issue, would be the amount for which there existed profitable uses. That is, uses sufficiently profitable to compensate for the interest paid to the banks. Any event that should create a new use for money, more profitable than this interest, would be a means of causing the production of these representatives. Government loans is a new use of this character, and does accordingly cause their production.

If the Specie which a Loan causes the production of, become surplus, it will soon cease from existing.

Should government make a new loan for any amount, say ten millions of dollars, and this should produce a new emission of bank-notes to the whole amount, it would then appear that the specie capital of the nation had increased ten millions.

A B and C contracted for the loan, and obtained the money from bankers, they are indebted to the banks ten millions. Government holds the specie, and these individuals possess the government securities. We will say, that government shall disburse this money for various services, and it will accordingly soon be possessed by the nation.

It may now be inquired, how this additional specie capital will find employment. It must be employed, or it will become surplus, and cause a depreciation in the price of specie. This can, however, hardly happen, so long as there are public securities in market, that it can be exchanged for on such ter n

as to produce the usual interest, or indeed so long as there are any other uses that it may be applied to with the same result.

If the holders should have no such uses for it themselves, and also be unable to find other individuals who would give the usual interest, it might then be truly said to exist in a surplus quantity, and they would possess no other resource than to invest it in government securities.

We will say the quantity which is thus surplus, shall be five millions, and that the holders shall purchase of A B & C, so much of their government securities as this sum can be exchanged for. By this exchange no specie has so far gone out of existence, but it has come into the hands of those individuals who first caused the surplus, by creating an additional quantity to the amount of the loans they purchased. These individuals will have a use for it. Paying it into the banks where they are indebted, will arrest the interest which they are periodically charged with. To this use it will therefore be applied, and thus cease from existing, because the bank will not re-issue it without some person stipulates to pay an interest for it, and this we have supposed no person shall be willing to do, on account of there being no profitable uses to which it can be applied.

The quantity of Specie which a new Loan will cause the production of, depends upon the existence or non-existence of a surplus at the time the Loan is contracted for.

The specie which any new loan causes the production of, depends, in actual practice, upon the quantity that exists in the nation beyond what there are profitable uses for. If, when a new loan is proposed, there exist a surplus of specie in the nation, that surplus will immediately be applied to the loan, and it will, accordingly, not cause the production of any new specie. Those who possess the surplus, will be willing to purchase the securities from government at a higher price than others, who would have to obtain the means through the agency of banks.

Government securities increase in value after their creation.

If no surplus exist at the time of the loan, it will in all probability have the operation before descri ed, and cause an entire new production of specie to the amount of the sum borrowed by

government, and the price at which the government will be enabled to obtain the specie, will, in a great measure, be governed by the price these individuals have to pay the banks. The purchasers, however, frequently calculate on a farther profit than what is derived to them from the difference in the price between what they receive from government and what they have to give the banks.

They calculate on being enabled to sell the government securities at second hand, for some greater price than they give for them in the original purchase. In this expectation they are also seldom disappointed, because, although no surplus exist when the loan is first authorised by government, yet the money which this loan causes the production of, does generally produce a surplus.

It seldom happens that there are immediate and profitable uses for so much additional specie. When government disburse the specie received for their securities, there is, as has been before observed, an increase of specie in the hands of individuals to the amount thus disbursed. The holders of it will be willing to obtain the government securities at a higher price than was paid in their original purchase, for at that period, as there was no surplus in market, no one would bid for them but at such a price as would enable him to bear the expense of paying the banks for their assistance. The second purchasers are impelled by different motives. They have become the real owners of this specie, and are accordingly anxious to make it productive. If they cannot obtain seven per cent. they must take six, and if they cannot obtain that, they must accept less. This produces a demand for government securities, and they accordingly rise in price. The first purchasers are benefitted from the very specie being in market which they enabled government to expend.

When the amount that is thus surplus comes, by these means, into the hands of those who contracted with government, they will return it to the banks from whence it was first issued, for it must be remembered, that although the whole quantity they loaned to government should be surplus with other individuals, yet with them it is not so. They have a productive use, by paying it to the banks for their individual securities, and they will accordingly be glad to obtain it until these securities shall be liquidated, which, as they were given for the whole amount of specie loaned to government, will, any way, embrace all that can be surplus. It is this operation of capital that has the greatest agency in producing that advance in the price of public securities which so generally attends their production.

Should the whole amount of specie created by every loan become in this manner surplus, it would then appear that loans

do not permanently increase the specie of a nation, but we may safely conclude, that it seldom happens, any thing like the whole amount created, becomes surplus, because from our present experience in this country, we must perceive, that there is much more specie in circulation than there was previously to the loans, which would not be, were the whole amount created uniformly returned, and put out of existence.

Representative specie cannot exist in a surplus, for any great length of time.

So long as the uses that bank-notes can be put to, produce a larger sum than that which it costs to keep them in existence, so long they will be maintained in existence. Whatever quantity should exist beyond what could be thus profitably employed, would be returned to the banks to arrest the payment of interest. In every nation therefore, where a representative specie capital is in circulation, there never will exist, for any length of time a quantity of it that is unproductive—that is, a quantity which will not produce, by its employment, a greater sum than what the banks charge for the loan of it. Every bank-note in circulation, may be considered as an instrument created by the bank that issued it, for the use of some individual who has promised to pay a certain sum for the loan of it. Each one, some person or other, is indebted for, and has to pay an interest to support. Whatever portion of them does not produce as much as this interest, will be returned to the banks, and the quantity will, accordingly gradually diminish, until there are no more in existence than will pay by their use the sum required for their support.

It may be said that all the bank-notes in circulation are not borrowed from the banks, because if I possess a thousand metallic dollars, I shall carry them to the banks and obtain notes for them on account of the greater convenience in their transportation. There will then be a thousand dollars in bank-notes, for the support of which, no interest is paid. This is also correct, and so many notes as are issued under such circumstances, will not come within the scope of the before-mentioned operation. It may be farther observed, that if every borrowed bank-note were returned, the remaining specie circulation would be no larger than the actual metallic coin of the nation. If any portion of this were surplus, there would be no profitable means of diminishing it, and the consequence would be, a depreciation in the price, until profitable uses should be found.

War prevents the production of Capital.

We have already stated several measures which operate to increase the capital of a nation, and amongst these, we have stated, that any thing, which should increase the animal powers of man in any nation, would also increase the quantity of capital which that nation would annually produce. It will be equally consonant to our experience, that any measure, which should diminish the animal powers of man in any nation, would also diminish the amount of its productions. We have also shown, that the amount of capital produced in any country, generally bears some relation to the number of its inhabitants. Where the love of ease is very prevalent, there will, however, be less capital produced than, in an other country, of equal population, where the love of ease is not so prevalent. The one will be termed industrious, and will abound with various objects of capital; the other, where ease is a more desired object, will be considered poor, and the articles of capital will be few. Conformably to these ideas and to our experience, any measure that should, in its operation diminish the quantity of labour in a nation, would diminish the quantity of that nation's productions.

In a state of war, much labour is abstracted which is not employed in the production of any capital. If the labour thus abstracted, and kept from producing, amount to the fiftieth part of any nation's productive population, it will be evident that a fiftieth part of its productions will cease. Any way, the productions will cease to the amount of capital which the abstracted labour would have produced. If 30,000 men become soldiers and sailors, and are not employed in the production of any capital, it will be equally evident that the productions of the nation will not be as much as if these men had not been made into soldiers and sailors.

There is a necessity for all such individuals to produce articles of desire to exchange for such other articles, as they may wish to procure, and accordingly these 30,000 would have been impelled by this necessity, and would have been producers. The productions of a nation are therefore arrested by the operations of war, to the amount that would have been produced by the individuals that it keeps from producing.

Soldiers and Sailors are consumers of Capital.

Independent of the loss to a nation, occasioned by the individuals employed in war, ceasing from being producers of capital,

there is still another loss. That is, although these individuals have ceased from producing, yet they still remain consumers of capital. The quantity of food, clothing, and various other articles which they consume, must be abstracted from the productions of the remaining inhabitants. There is then a two-fold disadvantage in their abstraction; first, the nation does not produce so much capital, which may be termed a prevention of gain; and secondly, there is an actual loss to the amount of capital which is consumed in their support and occupation. Had they remained in society, and been producers of capital, they would have produced as much at least as they consumed, but now they are consumers of capital, without being producers, and the nation suffers an actual diminution of capital to the amount of their consumption.

The disadvantages arising from this prevention of gain, and this actual loss, are made up to the nation if the expenses of the war are borne by the creation of government securities.

Because the securities are employed in paying for the capital which these persons consume in their support and occupation, and for the capital which they would have produced, if they had not been abstracted by government. If thirty thousand men are employed, the amount which government have to pay them in bounty and wages, will be the quantity of capital they produce.

We will say that it shall amount to thirty thousand dollars each day. Were these men employed in mines, and to produce daily thirty thousand dollars worth of silver, it is easily conceivable that they would not be considered unprofitable members of society. They would add daily, to the national capital, that amount of silver, out of which, however, would have to be deducted the capital consumed in their support.

We will say, that they should, each day, produce thirty thousand dollars worth of silver, and also, such an additional quantity, as to compensate for the capital they consume. They would, therefore, each day increase the national capital thirty thousand dollars.

Again, were these men not employed in mines, but in agriculture or some other pursuit, and were the product of their exertions exported, and to yield in its proceeds a like sum of thirty thousand dollars, exclusive of a sufficiency to pay for the capital consumed in their support, and in the transportation of their produce, we should then, also, readily al-

low, that they had increased the national capital to the amount before spoken of, and which they have now brought home in silver, from the country to which they resorted for a market.

We will now suppose that the amount of government securities which they shall daily cause the production of, shall be thirty thousand dollars, and that this shall be exclusive of the securities produced to pay for the capital they shall consume, it will then be equally evident with the former cases, that the national capital will increase by their exertions to the same amount that it would have increased by either of the other methods. The difference will be, that in the other cases, the capital was increased by the addition of silver, whilst in the present case it is increased by the addition of government securities.

We have already shown (in the commencement of this work) that an addition of government securities, is an addition of capital. That they yield to the possessors of them, all the advantages that other articles of capital yield. That they are exchangeable in a foreign or domestic market, in the same manner, and to the same effect, that so much gold or silver may be exchanged, or indeed any other object of man's desire. That their possession is sought with avidity, and that their loss is deplored as a misfortune.

The Labour abstracted by Government, is not always unproductive.

In the foregoing calculations it is evident that we have assumed several facts.—First, that the thirty thousand men will not be employed in the production of any capital.

Secondly, That the amount of government securities created to represent the capital they consume in their support and occupation, will be equal to the amount which they do consume.

Thirdly, that the amount of securities created to pay for their services, will be equal to the amount of capital they would have produced (exclusive of their consumptions) if they had not been taken into the services of government.

Fourthly, That the money paid by government, will remain in the nation, and not be disbursed in a foreign country to individuals who do not bring home an equivalent.

We will now consider these assumed facts, and first, that which supposes the men abstracted by government are not employed in the production of capital. If, contrary to this assumption, they are employed in the production of capital, it

will materially alter the effect we have shown to result from their change of character, and conversion into soldiers and sailors.

If soldiers enter into an enemy's territory, and bring from thence any articles of value, it will follow that the capital of the nation will be further increased, equal to the amount they thus acquire and bring home. The same results will follow from captures at sea, or from any production of capital, that they may be the means of producing.

In every correct calculation, therefore, of the actual increase or diminution of capital by such an abstraction of labour by government, all these circumstances must have a due consideration, and the result must be governed by them.

In the second position we have assumed, that the securities, created for the capital consumed by these individuals, in their support and occupation, will be an equivalent for the capital they do consume.—That is, one will be freely exchangeable in market for the other. If, however, contrary to this supposition, the capital consumed, should not be replaced by its equivalent in securities, the national capital will be diminished to the amount that the capital consumed exceeds the securities ;—or if, on the other hand, the capital consumed, should be replaced by more than its equivalent, the national capital will, in like manner, be increased by the operation, to the amount of this excess.

In the third position, we have said that the amount of securities the thirty thousand persons shall cause to be produced, as payment for their services, will be equivalent to the capital they would have produced (exclusive of the capital consumed in their support) had they not been abstracted by government. If, therefore, the practice should be different from this assumption, the result will also be different, and it may frequently happen, that the amount paid them by government, will be more than the capital they would have created in any other employ. The fourth position must also be understood as not referring to any actual practice, but as speaking of a result that would follow from a practice agreeing with that theory.

An increase of capital by government securities, differs from an increase by gold and silver, on account of the taxes the securities give birth to.

The securities form a capital which differs in nothing from what would be formed by government issuing a like amount of gold and silver if they should have discovered a mine of those metals under

the government house, excepting that loans require an annual tax from the nation to pay the interest on them. That an increase of capital is beneficial to a community, is a proposition so conformable to our daily experience, that an emission of public securities would readily be admitted as desirable, were it not for the taxes they give birth to for paying the stipulated interest. Many, who would admit an increase of capital to be beneficial, cannot conceive that it is sufficiently beneficial, to counterbalance the disadvantages resulting from taxes. Taxes are a direct and palpable individual disadvantage, whilst the benefit derived to any particular individual, from the quantity of capital possessed by others in the nation where he resides, is generally indirect, and requires thought and reasoning to discover. Were it however borne in mind, that only a very small sum is required annually of any one individual, for the support of a large national debt, he might perceive, more readily, that if the additional capital it creates is at all advantageous, it must be sufficiently so to counterbalance this small disadvantage. Thus, did the United States increase the national capital, by the creation of government securities, a hundred millions of dollars, it would require for its support about seven millions annually. This, on an equal distribution amongst all the male inhabitants of the nation over the age of twenty-one years, would be about four dollars each. It may be said, and truly, that this is not the way taxes are apportioned, but that some individuals would have to contribute much more than this sum, whilst others would have to contribute less, and indeed many, not any thing. In every assessment, each person has to contribute (at least such should be the operation) a sum proportioned in magnitude, to the advantages derived to him from the increase of capital which the tax goes to support. Were this rule strictly adhered to, no increase of public securities could be injurious to any person in the nation, so long as the use of capital was more productive than the amount of tax necessary to support it.

National Securities are in their operation like Bank-Notes.

Persons willingly pay banks for the use of that part of their capital they create and loan to them. But it may be said, the nation would be displeased were banks to loan out to individuals the specie they create, and then have power to levy a general tax on all the nation for the payment of the interest on the capital thus loaned. And yet the nation does participate in paying an interest on the capital which individuals borrow. If I receive

from a bank a thousand dollars and make any use of it, I include the interest I had to pay for this money into the calculation, and if it be to make a purchase, I give as much less, as the amount of interest I am forced to pay.

We have already said, that every bank-note in circulation, has to be supported in existence, by some person paying to the bank, an interest for it. Every dollar in bank-notes, costs for its support, a half a cent a month, or six cents the year. If it be inquired of any individual that may have obtained notes from a bank, and who is the instrument through which the bank is paid its interest, whether he is the loser of this tax, he will answer no. He made more than the interest from the person to whom he paid them. If this person be also inquired of, whether he loses the amount of interest paid for the notes he obtained in exchange for his property, he will answer in like manner, and will inform you, that he made a profit out of them from some person to whom he paid them. No person will acknowledge that they are kept in circulation at his cost, and yet it is evident, that they are kept in circulation and at the annual cost of six per cent. on each of them. The truth is, that every individual, bears a portion of this expense, who either purchases or sells. If I dispose of an article, the person who purchases, has to compensate me for the time this capital has lain by me unproductive. We will say, I purchased it with notes obtained from a bank, and therefore when he purchases with this charge included, he pays for these notes having been put in circulation. When he again disposes of the article, the various persons he sells it to, will be the persons who pay for their circulation, and thus it may at length be traced to perhaps every person in the community—each contributing in proportion to the magnitude of his transactions. Should a government, with this view of the subject, conceive that such an indirect tax on the community by bankers, was a burthen which ought to be removed, and should they accordingly enact a law, preventing any new emission of bank notes, and providing for the speedy liquidation of those already in circulation, it is readily conceivable, that although this would remove the burden complained of, it would also much reduce the capital of the nation, and contract the operations of individuals. The burden (if it may be so called) produced by banks, could not be removed without destroying, at the same blow, all the advantages that they also produce, and therefore, if these advantages counterbalance the evil, (of which our experience is sufficient evidence that they do,) then the nation would be a sufferer by the measure to the whole extent that the advantages preponderate.

No increase of Capital can be caused in a Nation, without each individual contributing towards its Production.

It may be inquired why individuals should contribute to keep in existence a capital of government securities and of bank-notes, and not also contribute in the cost required to produce other articles of capital. To this it may be answered, that there is no article of capital in a nation, but every individual had to contribute or pay a tax for its production. Thus, should any person discover a silver mine, and work it at his own expense, it will be obvious, that he will increase the national capital to the amount that the silver he may produce exceeds the amount of capital (labour, machinery, &c.) consumed in its production. It does not obviously appear, that any other individual in the nation would participate in the expense, and yet there are few, if any, in the nation, but what would participate. We will not suppose that the quantity produced shall be very small, because that would prevent our observing its operations on the public, but we will suppose, that it shall employ as many individuals in the different necessary departments and occupations as are now employed by government in their land and sea service. If so many men were taken from the common occupations, about which they had been hitherto employed, it would operate as we now find the same measure does operate. It would enhance the price of labour, and of every article produced by labour. The price, therefore, which every individual would have to pay for labour, or other articles, over what he had previously to pay, would be the tax which the production of this silver imposed upon him. We will say, that after a quantity of silver had been produced, equal in amount to our government securities, the production of it should cease. The persons abstracted from the community would then return to it, and the advance in the price of labour and other articles, which their abstraction had caused, would gradually cease with this cessation of the cause. It may be said, that this capital would then be no farther tax on the community, and that it does therefore differ from government securities and bank-notes, which remain a tax on the community as long as they continue to exist. This also does appear to be the true distinction between what may be termed real, and what may be termed artificial capital. Every person in the community has to pay a tax for the production of real capital, which ceases when the capital is produced; but in artificial capital, no expense is caused by its production, (that is, by government creating twenty millions of securities, or banks twenty millions of notes) but the expense is created by keeping them in ex-

istence, either by a palpable tax, as in the case of government securities, or by a hidden and unseen tax, as in the case of the notes of banks. It may be said, that the advance of price in labour and other articles, occasioned by the employment of these persons in the silver mine, arose from the scarcity thus produced, and from the efforts of individuals to acquire their accustomed quantities; that if these persons had not been thus abstracted, there would have been no advance in the price of any articles, and therefore the capital produced in ordinary and accustomed occupations would have increased the capital of the nation and occasioned no tax on the community in its production. To this it may be answered, that although the price I should, in that case, have had to pay for labour and other articles, would have been less than it now is, yet that the price, at all times, paid for labour, is dictated by the employment found for it. If labour be surplus in market, the price will be less than if there were a sufficiency of employment for it, and the reason why labour cannot be obtained on lower terms than those which we call its usual price, is on account of the capital then produced. The relative price of labour, in every country, always depends upon the quantity of capital produced, in proportion to the labour that there is to produce it.

In two nations, of an equal number of inhabitants, if one produce only half the quantity of capital that the other produces, then the one which produces the least quantity, will be considered a poorer nation than the other, and the price of labour, and all the articles produced by it will, be cheaper in this nation, than in the one which produces more capital. By this we may perceive, that the production of capital by other persons, makes the capital we desire, produceable at more expense than if we were the only producers, and this is, perhaps, so consonant to our daily experience as to make it sufficiently palpable. However much, then, I may be benefitted by the production of others, I do also bear a secret loss as a consequence resulting from this benefit, and inseparable from it.

The borrowers from Banks ought not to be the only persons who contribute to the support of the specie borrowed, because others are equally benefitted.

Were an individual, resident of some small village, to have credit at a city bank, and to borrow from thence a thousand dollars, there would be few persons in his neighbourhood, but what might, and perhaps would calculate, on receiving some benefit from this introduction of new capital, especially if it were

known to be borrowed for the purpose of its employment in their neighbourhood.—We have, perhaps, named too small a sum to carry conviction of its producing this effect, but, if it were a very large capital that was to be employed amongst them, there can be no doubt its introduction would be considered fortunate, and that many, if not all, would expect to receive some benefit from its circulation.

We will suppose a thousand dollars shall be of sufficient magnitude to create these sensations. We will also suppose, that on its arrival, the possessor should make a proposition to the villagers, that a general tax should be levied to indemnify him for the discount he had given to the bank.—It is easily conceivable that this proposition would not meet with a favourable reception. If, however, he could so modify the tax that no one would have to contribute, but only in proportion to the amount he found the new capital prove beneficial to him, there can be no doubt of their willingness to comply. That is, provided they knew the whole benefit derived from it, would exceed the whole amount of discount, and accordingly, that their proportion of benefit would be a larger sum than their proportion of discount. If the whole benefit prove equal to one hundred dollars, and the whole discount only fifty dollars, they would of course receive an advantage from the arrangement. From the difficulty of ascertaining the due proportions of each member of the society, we will say that this arrangement shall not go into operation, and that the transactions the money may give birth to, shall be allowed to take their accustomed and natural courses.

The object of the person who borrowed from the bank, was to make more in the use of the capital, than the sum he would have to pay.

The following account of his profit and loss, may show the result of the undertaking.

Profit and Loss Account, on one thousand dollars, borrowed from the Merchants' Bank, April 16, *and refunded the following* 16*th June.*

Purchased of A B & C, various articles, the produce of their village, for one thousand dollars, which, on a resale to L & E, of New-York, gave me a nett profit of - - - - -	$ 35
Purchased with the proceeds, various articles of merchandise, which, on being transported to this village, and sold, gave me a nett profit of -	35
Total profit	$ 70
Paid the Bank for the use of their capital during this period - - - - -	$ 10
Balance, being the nett profit made in its employ,	$ 60

From this it appears, that instead of being a loser by the discount given to the bank, he is in fact a gainer, to the amount of sixty dollars. Were this not the case with borrowers, there would be no one desirous of borrowing. It may be said, that in this account, although the profit is stated at sixty dollars, yet that there is still a loss of ten dollars, because, had he possessed the capital without this charge, his profit would have been seventy dollars. Therefore, although he is benefitted by the transaction, he still has to bear the loss of what he paid the bank; but, if the villagers had consented to pay it by general or partial taxes, he would not have had to make such a deduction from his profits.

This argument may be adduced to show, that it is the borrower alone who bears the charge caused by the creation of capital by banks. We will, however, more closely review the operations of this individual. He made several exchanges before he was enabled to accumulate the amount of profit spoken of. If we examine the free operations of trade, we shall find that not only one of the parties is benefitted, but that both are benefitted.

The great business of life, in actual practice, is to acquire possessions, which individuals do not necessarily obtain at the expense of each other, but in aiding each other.—A transac-

tion between individuals is generally a mutual advantage.—Such must be the method of man's dealings, or we should find no large trading cities. They grow from a general prosperity. If the fortune of one individual was regularly made at the expense of another, we would be able constantly, to date the riches of a prosperous man from the impoverishment of his former companion. It would be supposing the art of trade, a system of over-reaching and deception, and of two individuals, we should be sure, that like two gamesters, they would continue their transactions, until one had stripped the other of all his possessions. This is contrary to our daily experience, and therefore, is not the operation of trade.

If I become the purchaser of any article, I must give such a sum in exchange for it, as the seller prefers to the article he parts with. I must, however, prefer the article he parts with, to the sum he accepts in exchange, or I should not purchase it.

We have said that this person purchased of A B & C, various articles for his thousand dollars. These individuals were, therefore, benefitted by his coming amongst them with his borrowed capital, since it enabled him to give them, in exchange for their produce, various sums which they must have preferred to the produce he purchased. He was enabled to do this, because he possessed sufficient capital to transport the articles to a better market than they individually could. The persons with whom he re-exchanged them in the city, did also give a sum that he, in his turn, must have preferred. They possessed the capital and means of transportation to some foreign nation or market which he did not possess.

With the sum thus acquired, we have said he purchased merchandise to transport to the village. The seller and purchaser were again benefitted. The one preferred the merchandise to the sum accepted in exchange, on account of the disposition he could make of it, which the line of business or inclination of the other, prevented him from making. The villagers to whom the merchandise is lastly sold, do, in like manner, prefer it to the sum or article accepted in exchange. They are benefitted in giving more for the articles they purchase, than the price given in the city, on account of the superior quantity in which they were there purchased, and on account of various other considerations of transportation and time, sufficient to have entirely prevented their enjoyment by individuals, if each had been obliged to resort in their procurement, to the market which they would have had to resort to, if some one person had not interposed, by making their general procurement his occupation. From these considerations, it appears, that although the individual firs

spoken of, is benefitted by having obtained the loan of capital from the banks, and for which he gave ten dollars; that many other individuals are also either directly or indirectly benefitted. If the benefits produced could be pursued through all its ramifications, it would be found to embrace a greater number of persons, than would in a less particular search, appear credible.

For if, through this introduction of capital, the persons who sell him the produce of their farms, receive for it more than they would otherwise receive, then the value of land will increase, because the price of the produce must always regulate the value of the article which produces. Since, therefore, many individuals are benefitted by his obtaining this capital, it will be consonant to justice that they should also bear a portion of the cost necessary to its obtainment. If the whole number could be ascertained, and each were made to contribute in a sum proportioned to the advantage he received, it would be the most equitable arrangement that could be fallen on.

It may be said, that this is merely a theoretical evil, and not an evil in practice. That they who use a borrowed capital, always make the persons they trade with, contribute towards its support; that this person who took a thousand dollars into his village, gave as much less for the produce he purchased, as would compensate him for the discount given to the bank; and that when he sold his goods, he included in their price this same consideration. Therefore, it follows, if these results be true, that a loan from a bank does make others contribute towards it support, besides those who actually borrow the capital. Any way, this seems beyond contradiction, that others participate in the benefit, if they do not in the cost.

The quantity of Capital in a nation, concerns each one of the inhabitants.

That an increase of capital operates beneficially to an individual, is a proposition so agreeable to our experience as to need no illustration.

That an increase of capital to other persons is also beneficial to him, is a proposition not so palpable. And yet, the advantages derived from living in a wealthy neighbourhood are well known in practice. The fortune to which an individual can attain, is in a manner regulated by the wealth of others. On the circumstances of his customers, must depend the magnitude of his trading operations, and accordingly,

the magnitude of the sum he will gain in his vocation. It is from the knowledge of this fact that men live in large communities, and always resort to a place of wealth when they seek for a situation in which they may increase their own possessions.

The superior expense in the rent, food, and other necessaries of life, which have to be borne in a city, may be considered as the tax which an individual pays for the advantages attached to being in the neighbourhood of wealth.

When the proceeds of taxes are employed within the nation where they are collected, the National Capital is neither increased nor diminished by their operation.

If government levy a tax of any amount, and again disburse it within the nation, the capital will increase by its disbursement as much as it diminished by its collection. It therefore appears, if the expenses of war should be borne by taxes, that they themselves would neither increase, nor diminish the amount of capital possessed by the nation. The diminution would be occasioned by the quantity of capital consumed by the persons whom the war prevented from producing any equivalent. If government were to employ 30,000 men, and they should consume daily 1000 bushels of wheat, and 30 oxen, the national capital would diminish daily to the amount of this consumption. Besides, so many individuals, placed in a situation where they could not produce articles of capital, would cause the annual productions of the nation to be as much less, as the quantity they would have produced, if they had not been abstracted by government and kept unproductive : supported without those efforts which would have been indispensable to them in any other situation. The nation is not indemnified for the capital they would have produced, because the money paid to them for their services, is not any newly created capital (as in the case of loans) but it is a capital which already existed in the nation, and which was abstracted by taxes. In the same way, the nation is not indemnified for the articles they consume, because the capital given by government in exchange for these articles, is, in like manner, merely what was formerly abstracted by taxes, and which by being returned, only gives the nation what it had previously possessed. In nations where the expenses of war are thus furnished, it is generally found that the commencement of hostilities, is the commencement of a state of impoverishment, and this will invariably be its operation without they are indemnified by the introduction of a sufficient

quantity of capital captured from the enemy. It is frequently said, that the war of our revolution left the United States very much impoverished. This did not arise from any part of the capital having been sent out of the nation, but it arose from so great a portion of the inhabitants having been prevented by the war from producing capital. And also from these individuals not only being non-producers of capital, but from their being, at the same time, consumers of it. No sooner, however, was the debt funded, that served to represent a large portion of the capital thus consumed, and of the capital thus prevented from being produced, than the society assumed a different appearance. The government securities constituted a new capital. Individual transactions immediately extended themselves by the employment of it, and the poverty produced by the war, existed no longer as a serious fact.

Taxes affect Individual Possessions.

Although taxes, when employed in the nation where they are collected, do not diminish the amount of capital in the nation, yet they diminish the amount of individual possessions. If a tax annually takes from me ten dollars, I lose so much of my possessions. The national capital is not however diminished that amount, because some other person in the nation receives it. We will say this tax shall be levied for the support of a hundred millions of dollars in government securities, which war had caused the production of. If I receive an advantage from the capital which these securities constitute, over the amount of my tax, I am, of course, benefitted by their creation as much as the advantage overbalances the tax. We have already endeavoured to show, that an increase of capital is advantageous.—That for the purpose of any person acquiring wealth, it is indispensable that it should be possessed by other persons in the nation. That no increase of capital to a nation can be effected but what will produce either a direct or indirect tax on the inhabitants amongst whom the increase is produced ; and that the only concernment of each individual is, that the amount of his tax, for the support or introduction of any new capital, shall not exceed the amount of his benefit. We have said that the tax which takes from me annually ten dollars, goes to the support of a hundred millions in government securities—That the employment of these one hundred millions will be more productive than the amount stipulated to be annually paid on them, is a conclusion we are warranted in drawing by our daily experience. For were the use of capital not more productive than the interest paid for it, there would

be no persons willing to borrow, which is a state of things contrary to what we observe in practice. The great solicitude evinced by individuals to acquire a credit capital by paying the interest for it, may easily lead us to conclude, that the use of capital is more productive than the interest required for it, and that therefore, the tax levied for the interest of the one hundred millions in government securities will not be equal to the amount made in their employ. If, therefore, the whole benefit derived from these securi ies exceeds the amount of the tax, as we have shewn it will, it naturally follows, that the proportion of tax paid by each individual, will fall short of his proportion of benefit—That is, provided his tax is not disproportioned to his benefit, and that he was assessed with a due reference to his situation as it regards the operation of this credit capital on him. If we carefully consider that when an individual borrows a capital, he not only makes in its employ a larger sum than the interest he pays, but that the persons with whom he has transactions, also are benefitted by the capital having been put into existence ; and if we trace it still farther, and consider the numerous individuals through whose hands it circulates within the year, and that all of them are benefitted, we may easily conceive, that were the interest that put it into circulation to be borne by the whole number of individuals it had benefitted, the amount to each would bear but a very trifling proportion to the amount of his benefit.

If then, this be the true operation of capital, (and that it is experience can inform us) then the amount which the whole nation would be benefitted, by the creation of a hundred millions of securities, would very far exceed the amount of tax necessary for their support, and the assessment of each individual, if properly regulated, would fall far short of the amount of his benefit.

Government securities are of small advantage to any but the possessors, if they are not used as a trading capital.

It is a question of much importance, whether government securities are used by individuals as a trading capital, or whether they are retained inactively.

We have shown that the indemnification for the taxes they give rise to, must be found in their employ, for scarcely any conceivable advantage could arise to any person in the nation, from any quantity, however large, being in the possession of any other who should keep them confined in his chest, and of course unemployed.

It may be said that a government security for a thousand dollars, or any other amount, differs from the same amount of specie. The specie compels an employment, or it will remain unproductive; but a government security needs no operation to make it produce. The mere possession ensures the owner sixty dollars the year for a thousand dollar security, and therefore, it may be said there is no inducement to use it in trade. Another view of this subject, will however show us, that the possessor of a government security has no greater motive for keeping it unemployed, than another individual has for not borrowing from a bank.—Each of these persons has the same inducement not to use a capital in trade. The borrower from a bank, because he must give sixty dollars for the use of a thousand, and the owner of a government security, because he must lose the receipt of that sum.—We find, however, by the quantity of bank paper in circulation, that this loss is not sufficient to restrain the use of it as a trading capital, and therefore, we may naturally conclude that capital is more productive than the six per cent. charged for the loan of it, and that the holders of government securities will accordingly not be restrained from making them produce this larger sum, from the consideration of losing by it the smaller one.

It may be said, that in every nation, there are persons who by possessing large estates, are contented with the interest they can receive, by permitting others to employ their capital. Government securities are most generally found in the hands of such persons, for being desirous of ease, they gladly enjoy the natural productiveness of this species of capital, without seeking for a greater revenue. Of course, the individuals, who pay taxes for the support of securities thus situated, receive no indemnification. To this it may be said, that when these individuals obtained securities, they gave a capital in exchange which is now in circulation to represent them. It may be, however contended, that if they had not invested their capital in government securities, they would have loaned it to individuals, and that it would in that case have been in circulation the same as it now is. This position is however, not certain, because, for want of so stable a security at home as government, they might have invested their property in foreign funds, and thereby deprived the nation of the benefit derived from it.

In this country, owing to the smallness of individual fortunes, and the present habits of industry, there are few persons so situated as so engross, in this manner, any large portion of the government securities, and however much such a

disposition of government securities may be a matter of consideration in other countries, it is not so in this. But a very small portion of our first debt was kept unemployed.—It was used as a trading capital, and continually exchanged in our own and foreign markets as any other article of capital.

Nations are not impoverished by war, when they defray the expenses by creating public securities.

We have already shown, that government securities serve to represent the capital which war, by making many individuals soldiers and sailors, prevents the production of; and that they also serve to represent the capital purchased by government, and consumed in war operations.

If we survey an army, and observe how great a portion of it is composed of persons, who, from idle habits, previous to their enlistment, did not produce much capital, we shall be led to think that the securities they cause government to create, form a capital of greater magnitude than that which they would have caused the production of in any other situation. If the amount is greater, then the national capital will be increased by their employment equal to the excess.

The present inquiry may be considered as entered into more for the purpose of finding a method to ascertain the loss and gain of war in general, than it is to ascertain the loss and gain of any particular war; as such, we will take it for granted that the amount of securities created by government, shall be equal to the capital prevented from being produced, and to the capital consumed in belligerent operations. By admitting these premises, it will follow, that at the conclusion of war, the national capital will be as large as if peace had been undisturbed, and no impoverishment will be imputable to the war.

The War would injure each individual to the amount of his Tax.

We have said that the securities created by government, serve to represent the capital which the war consumed, or prevented the production of. The tax paid for their support, is the virtue which makes them constitute capital. If my tax takes from me ten dollars the year, I pay that sum for the purpose of preventing the war from diminishing the national capital. Had we remained at peace, the same capital would have been produced, but it would not have been in government securities, it would have been in various articles of real capital produced by the per-

sons whom the war made soldiers and sailors. These articles would not have required a tax to make them constitute capital. They would have been so from some properties within themselves. Whatever advantages, therefore, the present magnitude of the national capital yields to me, I should have possessed them, had we continued at peace, without this annual tax of ten dollars. I pay the tax to purchase advantages, which I should have enjoyed without purchasing had we remained exempt from the operations of war.

However much I am benefitted by the capital which the government securities create, I should be more benefitted were it not for the tax they require me to pay.

The benefit is derived to me, not from the capital created, being in the form of government securities, but from so much capital being in existence. The articles which would have been produced in a state of peace, would have yielded me equal advantages, for it is very immaterial to the effects produced by an increase of capital, whether the increase be in gold, government securities, or any other article. This, then, under such circumstances, is the true result; if the benefit derived to me from the existence of securities created by government during a war, are equal to a hundred dollars each year, and my annual tax takes from me ten dollars, I am then benefitted ninety dollars : if the operations of peace had not been disturbed, and the capital produced by individuals had been equal to the securities created by government, my benefit would be a hundred dollars, instead of the ninety which it now is, as no deduction for taxes would in that case have been required. We have hitherto supposed that the securities created by government shall be no more than sufficient to represent the amount of capital which the war prevented the production of, but we will now suppose, that owing to successful captures from the enemy, made by our forces, or from some other cause, the securities shall form a capital more than sufficient to represent that which the war prevented from being produced. We will say that the securities shall be fifty millions more capital than would have been produced if we had continued in peace. We will also say, that by these fifty millions, I shall be annually benefitted ten dollars. It will then follow, that the national capital being augmented by the war, causes me to receive a yearly benefit of ten dollars more than I should have received, if we had continued in peace. These ten dollars per annum, will just satisfy the amount I have said my tax shall exact from me, and therefore I shall be neither benefitted nor in-

jured by the war. The amount of tax (the injury brought on me by the war) is compensated by an increase of capital (a benefit resulting from the same measure) just sufficient to counterbalance the injury. If I am benefitted by the additional capital more than the amount of my tax, I shall be benefitted by the war equal to this excess.

A gratuitous issue of Government Securities would be beneficial, if indiv·duals were taxed for their support only in proportion to the benefit they receive from them.

It may now be inquired, what would be the effect of a spontaneous production of capital by government? That is, what would be the effect of their increasing the national capital, by gratuitously sending into circulation a large quantity of government securities, say two hundred millions of dollars, without abstracting or consuming any capital in exchange for them? If no capital be consumed or abstracted on account of their production, it will be evident that the national capital would be augmented. Every article of capital that previously existed, would still remain, together with the addition of two hundred millions of dollars in government securities. The sureties that we formerly considered, were created for the payment of individuals restrained by government from producing capital. They did no more than compensate for a capital that government had prevented individuals from producing.

The present issue, we have said, shall not be created for this purpose. It shall be an entire and complete addition to the national capital of such an amount in government securities. Whether the nation should be considered richer for such a creation, will not be now considered, it is merely intended that there will be so much more capital in the nation, for which it will be necessary that a certain tax should be collected from the people for the payment of its annual interest.

If my portion of the tax take from me annually twenty dollars, I shall be individually injured to that amount, if I am not compensated by some benefit received from this increase of capital.

If the benefit I receive, should exceed twenty dollars, I shall be benefitted to the amount of the excess. On the other hand, I shall of course, be injured, if the benefit derived to me should fall short of that sum. An event similar to this now spoken of, a gratuitous issue of government securities, was observa

ble in this country at the commencement of our present constitution. It is true, that the debt then funded, did represent a capital which the war had consumed or prevented the production of. That is, the amount of the securities then issued, were for debts due to individuals for services performed in the employment of the nation, and for various articles consumed during the war. The securities represented these services and this capital, the same as our present securities represent the services of individuals and the capital consumed in this war. Therefore, when we say that the funding of this debt operated like a gratuitous issue of government securities, we must be understood as speaking of its effects. It was a measure at one time despaired of, and few of the persons to whom the capital was originally due, were the eventual receivers of it.

It is, however, quite immaterial to the effects that were produced by these securities, whether the capital they created, went to pay for capital consumed in the services of the nation, or whether no such capital ever had been consumed. It is their operation, as it was either hurtful or beneficial, that concerns our present subject. It is, whether the benefit produced to the nation, by the increase of capital they caused, did not render their creation a fortunate event, even if it were to be judged of solely by considerations of interest. If their creation was found advantageous, that is, if it was found to benefit each individual more than the amount of tax injured him, then each may be said to have been benefitted. But if the advantages to each individual, were not sufficient to counterbalance his individual portion of the tax, then it was injurious to every one that was so circumstanced.

From the best information that can be collected on the subject, it produced an evident and immediate benefit to society. Individual transaction that had been previously on a very limited scale, immediately became extended. The new capital was employed in multiplying the objects of man's desire ; in stimulating industry, and in rendering its efforts more productive and important.

It must be remembered, that in speaking of government securities, we have treated them as our indemnification for the injury done to the nation by so many of its members being made unproductive by the war, and also for the capital otherwise consumed in war operations. It therefore appears, if our position be a correct one, that could we enjoy a creation of government securities, without an attendant evil of capital consumed and labour made unproductive, that it would then be a benefit without

an attendant evil. This result was verified in the securities just referred to as created after our revolutionary war. They produced a visible benefit to the nation, which did not proceed from the securities being applied to the payment of previous debts due from government, but it proceeded from the increase of capital they formed, independent of the motives which dictated their creation. The same benefit would have followed their production, whether they had been created for the payment of previous debts, or given as a gratuitous present to the individuals who received them. The advantages to be derived from a gratuitous issue of government securities, depend however, very much, for their accomplishment, on the situation of the nation where such a measure should go into operation. If the habits of the people are mercantile, and restlessly industrious, with a capital less than that which they desire to employ, then, in such a nation, a gratuitous issue of government securities would be advantageous. It would be an increase of capital, and from the desire we have supposed to exist for such an increase, the securities would be used in extending mercantile operations, and accordingly in benefitting, not only the persons who received them from government, but every other person in the nation, who should either have operations with these persons, or whose operations should in any other way be enlarged by the additional capital.

These were its effects at the commencement of our funding system. The benefits which resulted were general, because the securities then created were used as a trading capital, and therefore not only benefitted the first receivers of them, but every other person who could be influenced by the magnitude of capital in the nation. If we suppose that securities gratuitously issued by government, should be kept by the persons to whom they might be given, and no farther employed than to receive the dividends, as they should fall due, we might then easily conceive, that their creation would not be beneficial to any but the receivers, and that the tax, which others would have to contribute to the interest, would be a loss without any equivalent. This would also, no doubt, be true, and shows the necessity of what we previously said, that the proportion of tax required from each individual, should be in proportion to the benefit derived to him from the increase of capital. Could this proportion of benefit be correctly ascertained, no gratuitous issue of government securities could be injurious, for were I to receive in this way an amount of a thousand dollars, and did not employ it, no person would be benefitted by its creation but myself, and therefore no person but myself should be required to contribute to its support. But if I did employ it, then many others would be benefitted, and a tax

that should make each one contribute in proportion to this benefit would render the capital advantageous, because we have already shewn, and indeed our daily experience may inform us, that the profit derived from the employment of capital does much exceed the interest paid for the loan of it.

If a hundred dollars in bank notes should be brought into existence, the profit derived from it in any one year, by the various individuals, through whose hands it might pass during that period of its circulation, would form a total much exceeding the six or seven dollars necessary for its support.

A National Debt is paid off, not by the introduction of any new capital, but by an extinction of capital equal to the sum paid off.

It has been said, that a loan to government is, in fact, a loan from government to the people, and this will perhaps more plainly appear, if we reflect, that to discharge the debt, nothing more would be necessary than to raise from the citizens, by taxes, a sum equal to the amount of securities to be paid off, and then, by giving this sum in exchange for the securities, it would eventuate in their liquidation, and in the money raised by taxes, being returned to the nation. The object is effected, not by the introduction of any new capital, but by taking from one individual in the nation, capital already in existence, and giving it to another.

The possessions of each individual will be diminished to an amount equal to his tax.

If my portion of tax to pay off the national debt, should take from me a hundred dollars, it will have lessened my possessions a sum equal to that amount. Because, although the securities when in existence took from me annually, we will say seven dollars, and although I can again acquire a hundred dollars, by pledging myself to pay seven dollars a year for the use of it, yet the hundred dollars which the tax took from me, I had always considered, not as specie that I owed, but as my own absolute wealth, and it would have really continued to be so if I had removed to some other nation, before the tax was levied. A removal previous to that period, would not have been considered an act of dishonesty; but were I to replace the sum, by borrowing from an individual, on a promise of giving to him annually

seven dollars, formerly given to government, and then to remove with the hundred dollars in my possession, for the purpose of avoiding the payment, it would be a palpable violation of truth and honesty. I shall therefore, be a hundred dollars the poorer by this liquidation of the government securities, and every individual will lose of his possessions an amount equal to the sum he paid.

The holders of government securities are not benefitted by this liquidation.

They are in possession of specie to represent the securities they formerly possessed, and therefore, possess the same amount of capital they previously possessed, excepting so much as the tax made them contribute towards the object.—They will be injured by a loss of their possessions, in the same way as the other individuals are injured.

We will say, that they shall be enabled to find employment for their specie in loaning it to those persons from whom the tax of government abstracted it. If the notes they receive from these persons are as desirable as the securities, they will then be no farther injured than the amount which they lost by the tax, but these notes will not be so desirable ; they will not be useful as a capital in a foreign market, the same as the government securities were, neither will they answer the same purpose in a distant market in their own country. Yet if we admit that they shall answer all the purposes that the government securities previously did (which however they will not) still the capital which is actually owned by the individuals in the nation has diminished to the amount of the securities liquidated. Because, although each one may now re-possess by borrowing, the amount taken from him by the tax, and therefore have at his command as much capital as formerly, yet he must now consider it as a borrowed capital, whereas he could formerly call it his own. In calculations made by an individual of his fortune, he does not first sit down to find the amount of national debt that may be considered as his portion, and then deduct it from the sum of his possessions, as a debt he is pledged to pay; and therefore, if he does have it to pay, the amount is a loss of his individual possessions equal to the sum he pays. If it be said that the amount he is assessed to liquidate the national debt, is but the principal of the sum for which he has annually to pay an interest; that admitting the national debt could be liquidated by each individual paying a hundred dollars, the amount of interest he would be required to pay whilst it remained un-

liquidated, would be equal to the interest on a hundred dollars. If this be said, and that its liquidation will therefore save him this annual disbursement, it may be answered, that even allowing a person should be so situated, as to prefer paying a debt, rather than remaining subject to its charge of interest, yet that a public debt is different from one which an individual may owe in his private capacity. In owing an individual debt, the debtor is conscious that the principal must be by him liquidated at some period either near or remote, and that the interest will be chargeable to him until the debt is satisfied. In owing a public debt, however, there is no such necessity for the payment of it being made by him, and no such positive knowledge that the interest will continue chargeable to him until it is paid.

To liquidate the National Debt, is to diminish the National Capital equal to the amount liquidated.

From what we formerly said on the nature of government securities, it will appear, that to pay off the national debt by taxation, is to diminish the national capital equal to the sum paid off. The payment is not made by the introduction of new capital, but by taking from some individuals, capital which already exists, and giving it to others. We have had experience of the entire failure of some nations to fulfil their engagements with their creditors. The national debt has been cancelled by an abolition of the government under which it was created, or by some other event. Individual ruin has immediately ensued to numerous persons in the nation. A proceeding of this kind does not, however, differ essentially, from the proceedings of another nation who should pass a law for the payment of the national debt by a general tax. In both countries there would be a loss of capital to the amount of the extinguished securities, and the only difference between them, is the means by which the same end has been accomplished. In one, the loss is borne by the whole nation collectively, each individual contributing in a proportion to his capacity for bearing the loss; in the other nation, where the object was effected by a revolution, the loss is borne by the public creditors alone. No one alleviates their misfortune by any participation in it. They are accordingly entirely ruined, whereas, in the other case, each one lost only a portion of his possessions.

It is very immaterial to the result here spoken of, how gradual, and by what imperceptible steps the liquidation of a national debt is accomplished. So long as it is discharged by merely taking from one person and giving to another,

without introducing new capital, so long it will continue to operate as a diminution of the national capital; and the only preference such a mode is entitled to over the violent one of expunging the debt, by a revolution, or otherwise, is, as we have previously shown, that when accomplished by taxes, it regulates the loss, and thereby prevents individual ruin.—The only reason that ever was assigned, or perhaps ever can be, for a desire to liquidate a national debt, is, that the taxes may be thereby arrested which go to the payment of its interest. We have already said, that the same objection lies against bank-notes, and that, although the interest paid on them is not collected from the nation through the medium of tax-gatherers, yet that it is not less certainly collected, and therefore the same inducement may be found for the extinction of all bank notes and other credit capital, as for the extinction of any one branch of it. It is to the balance of advantages and disadvantages, that we must look to find out the expediency of any measure, and so long as the use of capital is found more productive than the amount of interest necessary to keep it in existence, so long will its being kept in existence, prove advantageous to the nation.

It is difficult to conceive any person so situated as to receive a benefit from the liquidation of a national debt, when the liquidation is effected by taxation; because, if the amount which I should be assessed for this purpose, should be equal to the principal of the sum I heretofore paid an interest on; that is, if I should be assessed a hundred dollars, and the payment of this should save me seven dollars per annum in future taxes, then the only benefit I could derive from the payment of the hundred dollars, would be its saving me in future from this annual requirement. Were my situation, therefore, so peculiar, as to make such an arrangement desirable, it could always be effected without the intervention of government; by loaning to an individual the hundred dollars, he could annually furnish me with the seven dollars required by the government tax. I should then, by such an arrangement, be furnished with the means of meeting the requirements of government, and still not divest myself of the ownership of any portion of my possessions, which by the other arrangement, I should certainly do, so far at least as respects the hundred dollars.

A Sinking Fund liquidates the National Debt without increasing the Tax of Individuals.

The operations of a sinking fund are perhaps well known in theory and practice. Any sum, however small, if placed in the hands of persons for that purpose, would, by the force of accumulation, at compound interest, increase to a sum sufficient to liquidate the debt of any nation. This fund is called a sinking fund, and these persons commissioners of it. We will suppose that there shall be such an institution, and that it shall commence operating. The commissioners invest the sum they commence with, in government securities, and regularly receive the dividends on them, which they immediately invest also, in a farther purchase of securities. By a perseverance in this system, it will eventuate in all the securities being in their hands, at which period their operations will be arrested by government. The securities will be put out of existence, and the taxes that had been uniformly paid on them, will also be abolished. Until this object is thus finally accomplished, it will not lessen the amount to be raised by taxes, because the securities in the hands of the commissioners, draw an interest equal to what they would draw if owned by private individuals. The amount of taxes is, however, not increased by the securities being in their hands, and when the object is finally accomplished, it will have been effected without any increase or diminution in the amount of taxes paid by any person in the nation.

Taxes paid for the support of Securities in the Coffers of a Sinking Fund, are paid without the possibility of receiving any equivalent from their employ.

If by this method of accumulation the commissioners of a sinking fund should be enabled to liquidate the national debt in fifty years, and without increasing the taxes paid by individuals during that period, it may be inquired who would be injured by its operations? The former holders of the securities now possess the specie which the commissioners paid them when they made their purchases, and each individual has not had to pay a greater amount in taxes, than he would have paid if the securities had not changed their owners. To this it must be answered, that, according to what we previously said, an individual was not a loser by the amount he paid in taxes, because he probably received more than a remuneration from the employment given to the securities. It was shewn that the employment of capital is more productive than the amount of interest paid for its use:

that the securities were accordingly more productive than the interest they required to keep them in existence, and therefore, that they were a national benefit.

By the operations of a sinking fund, the securities purchased by the commissioners, are kept unemployed, and of course do not benefit any person by being in existence. The tax paid by individuals is not for the support of a capital kept in circulation and employment, and which may therefore, present to them an equivalent, but it is for the support of a capital kept unemployed and removed from circulation, and which cannot, in that situation, return them any equivalent. Each individual loses, annually, the amount he pays in taxes.—At least so far as it regards the taxes which he pay for the support of those securities, in the coffers of the sinking fund. To pay off a national debt by these means, differs in no essential point from its liquidation by increased taxes, excepting that this mode, by being more gradual, renders the loss to individuals less perceptible.—When the securities are discharged by open taxes, for that purpose, the loss arises from some of your possessions being actually taken from you; when they are discharged by a sinking fund, it arises from your being prevented an increase of your possessions by the employment that would have been given to the securities, had they remained in the hands of individuals. The one method diminishes your estate; the other diminishes your income. This difference only relates, however, to the manner of accomplishing a liquidation of the national debt. After the object is accomplished, the effects produced by it will not be altered by the manner in which it has been brought about.—The national capital will be diminished to the amount of securities put out of existence, and whatever benefits were derived to individuals from the employment of them, will, of course, cease with the cause which gave them birth. The benefit to individuals, will be the amount they save in taxes; and the loss, will be the amount which the employment of this capital produced, over the sum paid in taxes for its support.

We have already shown, that the employment of capital is more productive than the interest paid for its use, and therefore, in the liquidation of a national debt, a minor benefit is purchased at the expense of one that is much greater.

APPENDIX.

AN INQUIRY INTO THE CAUSES WHICH REGULATE THE RATE OF INTEREST, AND THE PRICE OF STOCKS.

If a depreciation in the exchangeable value of Specie, produce a depreciation in the rate of interest, the holders of Specie will suffer a double loss; first, in the diminution of the quantity of their interest, and secondly, in the depreciation of the value of the article which composes that quantity.

We will say, that the rate of interest shall fall from seven per cent. to six per cent. and that the reason given by borrowers for refusing to pay a higher interest, shall be, that the exchangeable value of specie has so fallen, that they cannot purchase a bushel of wheat for a dollar, as they formerly could, but on the contrary, have to pay two dollars for it, and therefore, they will also make the price of interest fall, and will not pay so much for the use of a depreciated article as they formerly paid when it was undepreciated.

If the holders of specie consent to this new regulation, (and we will say they shall) it will then follow, that they not only lose by the depreciation before spoken of, but they also lose by receiving a diminished quantity of income. Thus, instead of receiving aunually, seven dollars for the use of a hundred dollars, they now receive only six dollars, being a loss to them of one-seventh of their income. Therefore, because the exchangeable value of specie has fallen, (we will say) fifty per cent. they must lose not only this fifty per cent. but also one-seventh part of the quantity they have been in the habit of receiving. If they had continued to receive the usual

rate of interest, it would not have shielded them from suffering by the depreciation of money, because, as the borrowers would, in all probability, have paid them their interest in specie, they would have found the seven dollars thus received, not as valuable as formerly, and that they would not produce more in market, than half the quantity of other articles they formerly would. The owners of specie, would, therefore, have suffered a loss equal to the depreciation; now, they not only suffer this loss, but also an additional one, in receiving only six dollars where they formerly received seven.

If an appreciation in the exchangeable value of Specie, produce a rise in the rate of interest, the holders of Specie will receive a double benefit ; first, in the increase of the quantity of their interest money, and secondly, in the appreciation of the Specie which composes that quantity.

If I formerly received six dollars a year for the use of a hundred, and any state of things should so change the relative value of specie, that one dollar could be exchanged for as much of any other article as two dollars could formerly; it will follow, that I need not any advance in the rate of interest to be benefitted by this exchange of circumstances in the value of specie, because the six dollars I now receive for the use of my hundred, will produce me in market as much of other articles, as twelve dollars did formerly. But we will say I shall think differently, and that I shall demand from those who desire to borrow, seven dollars the year interest on the account of the superior value of specie now, over its former value.

We will say, this change, in the exchangeable value of money, shall eventually produce this advance in the price of interest, and that I shall accordingly obtain seven dollars the year instead of the six I formerly obtained. Therefore, I not only receive an advantage from the rise in the value of money, and obtain as many articles in exchange for six dollars (the interest of one hundred dollars) as I could formerly obtain for twelve dollars (the interest of two hundred dollars,) but I also receive an additional advantage in receiving one-sixth more interest money than formerly. That is, because specie has advanced in value a hundred per cent. I shall be benefitted this hundred per cent. in the disbursement of my income, and also be benefitted nearly seventeen per cent. in the quantity of it.

The rate of interest is governed by the profit that can be made in the employ of Capital.

Before we give assent to propositions that appear so unreasonable as the two just considered, it will be well to investigate the motives which govern men in their efforts to acquire a credit capital, and the criterion by which they determine whether to become borrowers or not. We shall find, by observing men in real life, that they desire to borrow when they have some uses for capital sufficiently profitable to pay the required interest, and to leave a sufficient surplus to compensate them for their agency. No man who intends refunding the borrowed capital, will pay more for the use of it than he can gain in its employ, and therefore, the utmost that the holder of capital can obtain, will be the amount that its employment will yield.

The borrower of capital, however, will not resort to this expedient, without he can obtain the capital so much under what its employment will yield him, as to leave a sufficient balance, after paying the interest, to compensate him for his agency. The rate of interest will therefore, depend on these two leading causes:—First, the productiveness of capital; and secondly, the amount which is thought a sufficient recompense for the agency of the borrower.

Interest, is not a premium paid exclusively for Specie, but for Capital generally, be it specie or any other article.

Scarcely any one thing differs more widely in different nations, than the rate of interest. In Holland it was formerly two and a half per cent; in England, five; in India, twelve; and in this country, seven per cent. This difference in price did not arise from any corresponding difference in the value of specie in each country, but it arose from capital possessing in these different nations, different degrees of productiveness, and perhaps from a difference in magnitude in the sums that were considered by the borrowers of each nation, as a recompense for their individual agency. The exchangeable value of specie might have been the same in each country, for this circumstance has no government or control over the premiums paid for the use of capital, nor shall I be informed of the difference (if there be any) in the relative value of a dollar in this country and in India, when I am informed that in this country, the rate of interest is seven per cent. and in India twelve per cent. It must be borne in mind that the value of an article, means the quantity of any other article that it may be exchanged for; and

the rate of interest, means only, the amount that may be made in the use of the article. A dollar may be exchanged in India for more of many articles than it can be exchanged for here; and it may also be exchanged here, for more of many other articles, than it can be exchanged for in India. In speaking of interest, we frequently discourse of it as if it was a premium given exclusively for the use of money. This is, however, an erroneous mode of treating the subject, because the premium is given for the use of a capital, and not for the use of any particular article of capital. It is true, specie is more frequently obtained on loan than any other article, but this arises from its being so easily transported and transferred, from one individual to others. The person who borrows specie, has no predilection for this peculiar article, except what arises from the greater convenience attached to it. His motive in borrowing, is to obtain a capital, that is, to obtain an article that he can exchange for other articles. We have already said, wealth is acquired by exchanges, and he therefore, desires some article that he can affect exchanges with. If he could not conveniently obtain specie on loan, he w uld obtain coffee, or sugar, or any other article, and would pay an interest for the use of it out of the profits of his operations. We also find that this mode is nearly as common in practice as the other, and he who parts with any article of capital, expects to be compensated for the time he is out of the possession of it. Interest, therefore, is not paid exclusively for specie, but for every article of capital, and when we are informed that money is worth twelve per cent. in India, it means that the use of capital is worth that premium, whether it be money or any other article.

If capital be equally productive in any two nations, there may still be a difference in the rate of interest. A borrower, in England, may consider a profit of one per cent. over the interest he has to pay, as a sufficient inducement for him to accept the loan; whilst a borrower in the United States, may consider even twice that per centage, as an insufficient advantage. Under the operation of these different circumstances, the rate of interest would be different in the two nations, and the amount of difference would, perhaps, be regulated by the different degrees of value that the inhabitants of each attached to their personal exertions. A borrower may, in one sense, be considered as an agent of the lender; he employs a certain quantity of his capital, and the amount he gives for the use of it, is the amount he can make it produce, deducting therefrom, however, a sufficient sum to compensate himself for his personal exertions.

If the Rate of Interest were not regulated by Law, it would be regulated first, by the productiveness of Capital; secondly, by the price of Individual Exertions.

We will suppose a nation, and that no legal rate of interest shall be established in it.—It shall contain many persons indisposed to employ their own capital, and many others desirous to employ more than their own. The lenders will offer their capital to loan, and the borrowers will contend for the obtainment of it. No borrower will give more for the use of it than he can make in its employ, and therefore, the highest possible price that a lender can obtain, will be the whole sum that can be made in its use. He will, of course, endeavour to obtain a sum as near to this extreme as possible. The borrowers, however, will not resort to this expedient, without they can obtain it so much under what they can make in its employ, as to leave them a sufficient balance to compensate for their individual exertion; but, as they will contend amongst themselves to obtain it, each will offer a greater premium than another, and they will continue overbidding, until they think that the profit made in its employ, will (after deducting the premium) be not more than just sufficient to compensate them for their trouble. The amount of premium thus settled, will be the regular interest of the nation, and capitalists will not be able to obtain a greater interest, without the use of capital become more productive, or exertions become less valuable. The price of interest will also not fall without the use of capital become less productive, or personal exertions become more valuable.

The productiveness of capital, and the value of personal exertions, may, therefore, be considered as the standards by which the equity of any given rate of interests may be determined. The price, however, which is given for the use of capital will, perhaps, never be openly adjusted by these considerations, but it will be variously influenced by several causes which we shall now endeavour to treat of.

The quantity of capital in market to be loaned, will affect the rate of interest.

Few things force themselves more frequently to our notice, than the consequences that result from what is termed opposition in trade. By a consideration of these consequences, we shall find, that the rate of interest, at any particular period, must depend, very much, on the amount of capital in

market to be loaned, as it is either sufficient or insufficient to supply the quantity required by the borrowers. If the capitalists be numerous, and the borrowers few, there will be an effort made by each capitalist, to induce the borrowers to accept his capital in preference to that of others.—This effort will be an offer to accept some smaller premium than that which is generally demanded.

If, however, on the other hand, the borrowers be numerous, and the capitalists few, there will then be an effort made by each borrower, to induce the capitalists to loan to him in preference to loaning to any other. This effort will be an offer to give some greater premium than that generally offered. The rate of interest will, therefore, very much depend on the preceding circumstances, but no scarcity of capital can ever induce borrowers to offer a greater premium than the amount which they can make in the use of it,—and on the other side, no scarcity of borrowers can ever induce capitalists to offer a greater inducement to borrowers than to give them the use of their capital for nothing; which is an extreme on the side of capitalists, no more to be conceived than that borrowers should give more for the use of capital, than they can actually make in its employ. The circumstances, then, of scarcity of capital and scarcity of borrowers, will make the rate of interest fluctuate between these two extremes.

The rate of interest may fall from the habits of a people becoming less industr ous, and it may also rise from their habits becoming more industrious.

We will suppose a nation, and that nearly every individual in it, shall possess such habits of industry and enterprise, that he shall employ his own capital, and be desirous of obtaining even more.—There will then be very little in market to be loaned, and for that little, there will be many competitors. The rate of interest will, therefore, be very high, that is, it will be very nearly as much as can be made in the actual employ of the capital.

We will now suppose another nation, and that nearly every individual in it, shall possess such habits of indolence and inactivity, that he shall be desirous of loaning his capital, and dislike the trouble of employing it himself. In such a nation, there will be much capital in market to loan, and few competitors for obtaining it. The rate of interest, will, therefore, be very low; that is, the borrower will return to the capitalists, but a very small part of the profit that he makes in the employ of their capital.

The difference in the manners and habits of these two nations, might, also, be said to operate on the rate of interest, even in another way; in the nation of indolent habits, personal ease is an object of greater desire, and of course of greater value, than it is in the nation of industrious habits; therefore the rate of interest is lower in the nation of indolent habits, because the capitalists have to allow the person who borrows their capital, a greater recompense for his personal exertions than the capitalists in the other nation have to allow to those who borrow of them. These different ways of accounting for the same result are, however, not incompatible with each other—they will always be found together in practice.

From a consideration of what has now been said, it will appear, that a rise in the rate of interest will be effected by the following circumstances:

1st. The known uses of capital becoming more productive.

2d. A diminution in the quantity of capital in market to be loaned, or an increase in the desires of borrowers.

3d. An increased habit of industry and enterprise, whereby the state of things will be produced, alluded to in the above second consideration.

4th. A depreciation in the value of personal exertions.

A depreciation in the price of interest, will be effected by the following circumstances:

1st. The known uses of capital becoming less productive.

2d. An augmentation in the quantity of capital to be loaned, or a diminution in the desires of borrowers.

3d. A less habit of industry and enterprise, thereby producing the state of things alluded to in the above second consideration.

4th. An appreciation in the value of personal exertions.

The tendency of Banks is to reduce the rate of Interest to the amount charged by them, and no augmentation of Banking Institutions can reduce it lower, without they commence the reduction.

Having now enumerated the several causes which have an operation on the rate of interest, we will proceed to inquire into the operation of several agents which are supposed to affect the rate of interest through the medium of some of these before detailed causes—and first, as respects banks. We have already shewn that they increase the amount of capital in a nation, and therefore, it will appear that they will have a tendency to lower

the rate of interest, without the desires of borrowers increase in an equal proportion. The question then is, do the desires of individuals increase in the same proportion?

To this it may be answered, that we have already shewn there can never exist, for any length of time, a quantity of bank-notes in market over what can be profitably used, that is, there never can exist in any country, for any length of time, a quantity of bank-notes that will not yield by being employed, more profit than the amount necessary to be paid for keeping them in existence—because, it must be remembered, every bank-note has to be kept in circulation at the expense of some individual who stands pledged to the bank, to pay them, periodically, a certain per centage until he shall refund the borrowed bank-notes. It therefore appears, that putting bank-notes out of existence, (returning them to the banks that created them,) is a profitable use, equal in this country, to 6 per cent. a year.

If then no use exist for them more profitable than this, they will be applied to it, and therefore, no quantity can ever long exist that will not yield in its employ more than the premium paid for its creation. By this it appears, that no increase of quantity, in bank-notes, can ever operate to depress the rate of interest below what the banks themselves establish; and the quantity of bank-notes, which it is possible for banks to keep in existence, will be the quantity for which there are known uses more profitable, than the established rate of discount. If the establishment of banks be unrestrained, it is probable that those institutions will increase as long as the business remains profitable. It then appears, that the amount of paper which they will be enabled to emit, will be governed by the quantity that can be used by individuals at a sufficient profit to compensate for the 6 per cent. required by the banks for its creation. The amount which can be thus profitably used at any given period, is not unlimited, and of this fact we may be assured by our individual experience; for were the question put to any individual, how great an amount of bank-notes he would receive and stipulate to pay a premium for of six per cent. there would be a certain sum beyond which he would not receive them on these conditions. The reason for his refusal would be, that he would know of no use to which he could profitably apply a greater amount. This sum then, what ever magnitude it might be of, is all that he would receive, and a like answer from every individual in the nation, would show the precise amount for which the nation (at that given moment) would venture to pay an in erest for of six per cent. On this point we must now rest, because it shows us that the tendency of banks is to reduce the

rate of interest down to the price at which they loan their paper. They cannot reduce it lower, because the extinguishment of their own notes furnishes to individuals a use for capital as profitable as the 6 per cent. necessary to keep them in existence. A power to create bank notes to the extent of the sum required by borrowers, will, undoubtedly, have this effect of reducing the rate of interest of all other capital, down to the standard established by the banks; because, whatever the productiveness of capital may be, yet no individual will pay a higher price for it than 6 per cent. if he can obtain at that price, the whole extent of his wants, which is a state of things we supposed by saying, that the number of banking institutions should be sufficient to emit all the paper that they should be solicited to emit.

Although the quantity of bank-notes is limited, which can be put into circulation at any present period, yet the amount which may be put into circulation at any future period, is perhaps beyond the power of reasonable conjecture.

We have now shown that the quantity of bank notes which can be issued at any present period is limited, because no individual will, on any one day, receive more than some given quantity; the reason is, because he will know of no use to apply a larger quantity to sufficiently profitable to afford the six per cent. premium. We will say that each individual shall receive this quantity. It may then be inquired whether it will continue to be the extent of the paper circulation? that is, whether individuals will not discover, after using this quantity, certain other uses beyond what they calculated on, and therefore require an increase in the sum given them on loan? Something similar to this every individual may have experienced in himself; after having obtained as much capital as he thought he could employ, he has found, in his progress, that a farther capital could be profitably used, and accordingly has acquired it and extended his business. We formerly said, when speaking of capital, that the quantity of any article in our possession dictates the quantity in which we shall use it, and that on receiving an increase, we soon extend our accustomed uses, or invent new ones, sufficient to embrace it. By this it would appear, that there is no definite quantity of any article (and therefore of bank notes) that may be said to be the most we can use, but that the quantity we desire to use, is the quantity for which we have known uses. It is highly probable that after each individual should have received the amount of bank notes for which he knew profitable uses, that he would, by knowing he could obtain

more notes, exert his enterprise and ingenuity to discover new uses; from the result of these exertions, in all other cases where we have seen them applied, it is quite reasonable to conclude that they would be successful in this case also, and that he would soon require a larger quantity of notes than he had formerly been content with.

We have now shown that the quantity of bank notes which can be kept in circulation at any given period, is not unlimited: that there is a certain quantity for which there are known uses sufficiently profitable to pay the interest, and that this quantity will be the extent which individuals will be found willing to support in existence, and therefore, the extent which banks with unlimited powers, would be enabled to loan. Could the precise amount of this desired quantity be ascertained, it would be to the extent that banking operations could be carried, and any farther increase of banking institutions would, for the moment, be surplus; that is, they would be unable to increase the quantity of paper loaned to the nation. But agreeably to what we have said farther, it will appear that an additional quantity would soon find employment, on account of the enlarged scale of operations that men are continually aspiring to, and therefore, although the quantity of bank-notes is limited, which can be put in circulation, or in other words, that can satisfy the uses of any present period, yet the quantity which may be put into circulation at any period ulterior thereto, is beyond the power of reasonable conjecture.—It is an opinion very frequently heard, that bank-notes are used only as an instrument to put other property in motion, and that the quantity of them that can be useful, will depend upon the quantity that is sufficient to answer this purpose.

This theory, although it seems to give some information, does, however, in fact, give none. Were the number of exchanges defined, that can be made with any given quantity of capital, it would then appear, that the knowledge of the amount of this capital, and of the number of persons who could purchase and sell it within the year, might give some information as to the amount of bank-notes that would be necessary.

We will say that the amount of all the articles of capital in a village of fifty persons, shall be a thousand dollars, and for greater convenience of argument, we will say also, that this value of a thousand dollars shall be in one single article; it may then be inquired, how great an amount of bank-notes will the villagers want in their operations? Were it regulated how many times this article might be bought and sold in a year, it would then appear, that it would not be difficult

to determine the amount of bank-notes that would be necessary. Because, if it could be bought only six times, it would seem no individual would want bank-notes, but the six purchasers, and they would want a thousand dollars each.—Therefore, the whole amount of bank-notes that could be profitably used, would be at farthest, not more than six thousand dollars in the ear. In practice, however, this theory can be but of little service; because, although the amount of capital may be defined, which exists in any given place, yet the number of exchanges hat will be made in any one year with it, is beyond our power of determination. Instead of the number of exchanges governing the quantity of bank-notes that can be used, the very reverse is, in all probability, the fact, and the quantity of bank-notes that can be obtained, determines, more probably, the number of exchanges.

We have said, that in the village just spoken of, their capital of a thousand dollars, should only be exchanged six times. If, however, each inhabitant could have procured as many bank-notes as he desired to borrow, it would be highly probable, that many more than six purchasers would have had this article in their possession. The circumstance of being able to procure on loan, the means of purchasing it, would have induced many to become purchasers, who would not otherwise have contemplated such an operation.

The knowledge then, of the quantity of capital in any place, can give us no information of the amount of bank-notes that will be necessary in its operations; because not only each individual may have the whole amount of capital pass through his hands in any one year, but he may also have it pass through his hands many times within the year, and the same may be said of every ever other individual.

Also, the quantity of bank-notes which is necessary to put in motion any given quantity of capital, will be unknown to us until we know the number of exchanges that will be made with it, and this circumstance is, probably, more determined by the quantity of bank-notes that can be obtained, than it is by any other circumstance.

Before there can exist a surplus quantity of Bank Capital, the profits of every known use to which it can be applied, must be reduced to a standard, governed by the rate of discount, and by the amount, considered by individuals, a recompense for their personal agency in applying the capital.

We have said that bank-notes will continue to be solicited so long as the uses to which they can be applied, will

be sufficiently profitable to pay for keeping them in existence, and to pay the borrower for his trouble in applying them to these uses. If this be so, and as many bank-notes be obtainable by individuals as they desire to borrow, it will follow that the productiveness of every pursuit, which capital can be freely applied to, will at length be brought down, until a further application of capital will no longer support the charge of interest, and leave a sufficient balance to compensate the borrower for his trouble in employing it. This must be the state of every known pursuit, before there can exist a surplus quantity of banking capital in a nation; because, while there is a use for capital sufficiently productive to compensate a person for applying capital to it, there will always be persons sufficiently eager to make the application. If, therefore, a time arrive, when banking institutions are sufficiently numerous to furnish more capital than there are known uses for it, sufficiently profitable, all the known uses for capital must have been previously brought down in their productiveness, to one standard. That is, no use for capital will be more productive than to produce a sufficiency to pay for the interest employed in it, and also to yield a certain profit to the borrower of the capital, for his personal agency, which profit must, however, be the lowest sum for which persons, capable of applying capital to this use, are willing to accept; because, if we suppose that it is not the lowest sum, then there will still be individuals willing to apply capital this way, and therefore it will continue to be resorted to (as the only remaining use sufficiently profitable to apply the surplus capital to) until it shall, at length, be brought down to this standard.

A Reduction in the rate of Discount, will increase the Bank-Notes that can be supported in circulation, and also increase the industry of a nation.

Because, although no uses may remain for capital sufficiently profitable to compensate a borrower for paying six per cent. for the loan of capital, yet if he can obtain the capital for five per cent. there may be many uses that he can profitably apply it to. We will say, not being able to loan a sufficiency of paper at six per cent. banks shall reduce the rate of discount to five per cent. They will, accordingly, be enabled to loan as much more paper as can be now profitably used, over what previously could be thus used.

By what we formerly said, it will appear, that this reduction in the rate of discount, will eventually reduce the productiveness of every pursuit, because, (when interest was six per cent.) if the profits of every pursuit had eventually to be brought down until no more capital could be employed about it at a sufficient profit to compensate (after paying the interest) for the personal exertions of the borrower, then the same result will now be produced, and each pursuit will be resorted to until the profits shall be brought down so low that no more capital can be that way employed with sufficient advantage to compensate for the personal exertions of the borrower. It may be then inquired, what benefit has resulted from the reduction of the rate of interest, since the profits of every operation have experienced a corresponding diminution? To this it may be answered, that although the profits of each operation have diminished the same amount that the rate of interest has lessened, yet that this loss is not borne by the borrowers, but by the lenders. When we said the profit of each pursuit would not permit any more capital to be employed in it, because it was not a sufficiency to compensate a borrower that had to pay six per cent. for the use of capital, it showed that there was a certain portion of the profits of each operation, that the borrower made indispensible to his exertions. Therefore, when a reduction took place in the rate of interest, and eventually in the amount of profit yielded by each pursuit, it did not cause him to exert himself for a less recompense, because we have already shewn that his former recompense was the lowest he would exert himself for, as such, whatever reduction of profit the alteration in the rate of interest has eventually effected, it must be no greater than the one per cent. which the banks have become willing to relinquish, and the only operation the alteration of interest has on him, is, that it enables him to increase the number of his operations; as he receives by each operation now, as much benefit as he did formerly, he is therefore benefitted now, over what he formerly was, equal to the excess in the number of his present operations over his former ones.

A reduction of interest injures those only, who employ no capital but their own.

From this view of the operation of the rate of interest, it appears, that the only effects that can be produced by a depreciation of interest, is some reduction of profit to those who have capital to loan; all persons, who live on their income,

will be injured by a reduction in the rate of interest; because, as they have no connexion with any operations but simply those which arise from the interest paid them for the use of their own capital, they will, of course, be injured by any event that reduces the value of this use.

In the same way every owner of capital will be injured; because the profit on every operation of capital, becomes equally reduced; but if he be a person who also employs more capital than his own, (as is the case with most persons in trade) then he will, in all probability, be much more than barely compensated for his loss, by the reduced price at which he will be enabled to borrow, and by the increased number of operations this reduced price will enable him to effect.

A reduction of bank dividends, occasioned by a diminution of the rate of interest, would not lower the price of stock in market.

If a great increase in the number of banks should cause such a competition for custom, as to induce them to reduce the rate of discount, it will follow from what we formerly said, that the general rate of interest must also fall, because no individual will give me six per cent. for the use of capital, if he can obtain at a bank, the amount he requires, at five per cent. We will now suppose such a period to have arrived, and that bank dividends, in consequence thereof, shall fall from nine per cent. to eight per cent.

The reason why bank stock is sought, is because capital invested in banks, produces a greater interest than the customary sum, and the advance bank stock bears in market, over its nominal value, is governed by the amount which the dividends exceed the usual interest. The rate of interest at any period, has nothing to do with the advance stock bears at that period.

We will suppose two nations, and that each shall have a certain fund that pays annually fourteen per cent. The rate at which you can loan out capital in one nation is not higher than seven per cent.—A person of that nation, who has capital to loan, will probably give two hundred dollars for stock in this fund, although it is nominally worth only one hundred dollars, because this amount of stock will give him an annual interest of fourteen dollars, which is as much interest as he could obtain if he were to loan two hundred dol-

lars to an individual who should give him his note for that sum. The individual would only allow him seven per cent. but in the other operation he obtained fourteen The result in both transactions would be the same. The object of the lender was income, and he would obtain the same amount by either operation. In the other nation, the circumstances shall be different, for the customary rate of interest shall be fourteen per cent. A capitalist in that country, will, therefore, not give any advance on this public stock, because he can loan his hundred dollars to any individual, and he will give him a like sum of fourteen per cent. and therefore he has no motive to give an advance. By this it appears, that the capital given in exchange for any stock, is governed by the income this capital can produce in other employments, and, therefore, a depreciation in the income of stock, will not make it exchangeable for less capital than formerly, if a like depreciation has happened in the profits of the capital for which it is exchanged. In other words, if stock should be fifty per cent. above its nominal value, on account of its yielding nine per cent. interest, whilst other property produced only six per cent. it would still continue to sell at this advance if its interest were reduced to six per cent. provided the interest of other capital should fall in like proportion, and yield no more than four per cent. So long as the interest of the stock should continue permanently fifty per cent. higher than the interest of other property, (however the price of interest might rise or fall) so long would it continue to preserve its accustomed price in market, and therefore, no diminution in the amount of bank dividends, produced by a diminution of the rate of discount, would probably affect the market price of bank stock.

Before there can exist a surplus quantity of bank capital, the profits of banking (like that of every other pursuit) must be reduced to a standard, governed by the rate of discount, and by the amount considered by individuals a recompense for being bankers.

So long as the dividends declared by banks shall much exceed the rate at which they are willing to loan capital, it appears difficult to conceive that the farther establishment of banks should remain unsolicited.

In chartered companies, the management is so simple, and occasions so little difficulty to the stock-holders, (the real bank-

ers) that no recompense is required for their being placed in this capacity. An individual with capital thus invested, has, perhaps, not even so much trouble in obtaining an interest for it as he would have if it were loaned out to individuals for the purpose of simply obtaining this end.—It is even probable that if the two methods (loaning to individuals, and owning bank stock) should yield the same amount of profit, that a preference would be given to the bank stock, although by holding the stock of a bank, the possessor subjects himself as a banker) to all the losses which his bank is subject to, yet so small is the danger considered in practice, that it is, perhaps, seldom accounted a greater hazard than most of the securities on which capital is loaned.

We have said, that loans will be sought from banks so long as the uses to which capital can be applied, will produce more than the amount paid to the bank in its obtainment. That is, sufficiently more, to compensate the borrowers for their individual agency. One use for capital more productive, at present, than the interest charged by banks, is the employment of it in banking, and if this use be sufficiently productive to compensate a borrower for his agency, it will be resorted to until the number of banks, by continually augmenting, shall be reduced in their productiveness to some profit insufficient t compensate for the agency of borrowers.—That is, until the dividends declared by banks, be insufficient to compensate individuals for borrowing capital to apply to the purposes of banking.

This theory will, most probably, correspond with actual practice, but the extent of its operations on banking, will depend on some circumstances not yet considered.—First, whether the present differences existing between the rate of discount and the amount of bank dividends (in New-York, three per cent.) is considered in practice, a sufficient inducement for obtaining a loan, and for the trouble of renewing it so frequently as it would have to be renewed in every year.—Secondly, whether, if the present difference be a sufficient inducement, an eventual reduction of one per cent. in the amount of dividend, would not destroy the farther inducement, or if one per cent. reduction, would not destroy it, whether some reduction would not destroy it, which should still leave the dividend a greater sum than the established rate of interest.

A reduction of dividend may be effected by a depreciation of the rate of discount or by an insufficiency of borrowers; but no reduction of dividend, occasioned by a depreciation of the rate of discount will reduce the price of stock, and therefore arrest the increase of banking. This can alone be effected by a reduction of the dividend, when produced by an insufficiency of borrowers.

The desire to establish banks, appears to arise more from a wish to enjoy the productiveness attendant on specie thus invested, than it does to obtain capital on credit. Were it not so, the contention would be about obtaining the credit; at present, the contention is about obtaining the stock. Whether the immediate instruments of creating any new bank desire, the stock for their own possession, or for the purpose of disposing of it to others, is immaterial, so long as it is for the purpose of obtaining the stock that new banks are sought. The erection of new banks will therefore continue to be solicited, so long, at least, as this motive shall continue, and the motive will continue so long as the profits of capital employed in banking shall continue sufficiently large.

Were we to suppose a bank, possessed of unlimited power, and means of creation, it is easily conceivable, that if it were to issue all the notes it were solicited to issue, that then the amount in circulation at any given period, would be the amount for which, at that period, there existed known uses sufficiently profitable to pay the charge of interest. Should this bank be desirous of issuing a greater quantity of notes, it would be unable to loan them to individuals unless it would lower the rate of interest. This measure would have the desired effect, because the amount of notes previously in existence, was the whole amount for which there existed uses sufficiently profitable to pay the former charge of interest, say six per cent. There may be still many uses to which they can be applied, sufficiently profitable to pay an interest of five per cent.; therefore, by lowering the rate of interest to this premium, the bank will be solicited for a farther emission of notes sufficient to supply these additional uses. The same may be said of any farther depreciation in the rate of interest, that it will be attended by an increase in the quantity of notes that can be loaned.

A diminution of the profits of banking may be effected, in at least two ways:—First, by a reduction of the rate of discount (as just spoken of); and secondly, by a want of sufficient custom. The first event would not, however, re-

move the inducement, because, as we have already shown, it would produce a like diminution in the rate of interest generally, and also in the profits of every known use to which capital can be applied. Therefore, if the inducement for creating new banks proceeds from the comparative magnitude of their profits when compared with the profits of other pursuits of equal ease, it will follow, that this same inducement will still continue, if the event that reduces the profits of banking, reduces also the profits of all other pursuits. The inducement for the establishment of new banks, is the comparative magnitude of their profits, and therefore the inducement will still continue until this comparative magnitude be diminished. Any event that should diminish the amount of dividend without lowering the rate of interest would have the effect of diminishing this comparative magnitude, and therefore would, when the dividend was sufficiently reduced, arrest the farther increase of banks. An insufficiency of custom will produce this effect. We have already shown, that the quantity of bank-notes which banks possess the power of emitting, may, at any given period, exceed the quantity for which, at that period, there exist known uses sufficiently profitable to compensate for the charge of discount. If, therefore, banking institutions be so multiplied, there will be an insufficiency of borrowers, and this insufficiency will continue until new uses are discovered. In the mean time, from the want of sufficient employment for the whole banking capital, the profits will, of course, be smaller than usual, and therefore, the amount of dividend will be less. If this reduction of dividend be not sufficient to prevent the farther application of capital to banking, then the amount of capital will still increase until the quantity become still more disproportioned to the profitable uses, and until the surplus quantity be sufficiently large to cause such a diminution in the amount of dividend as to render the farther application of capital to banking, less profitable than its application to other uses.

Whenever such a period shall arrive, the amount of dividend will, in all probability, continue thus low, until new uses for capital, sufficiently profitable, shall be discovered. Then the banking capital, that had been previously surplus, will find employment, and the dividends will again rise, and thereby cause a farther increase in the number of banks, from a revival of the motives which formerly caused their establishment.

Banks, to be trust-worthy, must possess a capital of their own.

By the system of banking practised in this country, the bankers, with perhaps some few exceptions, are not individually responsible, in their private capacity, for the notes which they emit as bankers.—They are merely guardians of a certain fund, which is created for the purposes of banking.—This fund is alone responsible.

We have said that banking might be conducted, even if specie were refused for bank notes, and it may, therefore, be supposed that banking could be commenced, under the operation of such a system, without any previous fund or capital, and accordingly, all the money received in discounts be a profit on individual exertions, unaided by capital. It is possible that even now, a bank might be set in operation without the possession of any capital, but then it must be a deception on the public, because the reason of a preference being given to bank notes over those of individuals, is that they are supposed to be more stable and secure, and therefore, were it known that a bank was transacting business without any capital, it would be also known that they were not more secure than the notes of the individuals who borrowed of the bank: because, if these individuals should fail in repaying the bank, there would be no capital to be exchanged for the bank-notes, and of course they would be of no value.

Something similar to the above, was experienced in the transactions of a bank in Vermont. The bankers possessed no capital to represent the notes which they put in circulation, excepting the notes of individuals, which they received in exchange for the bank notes they loaned to them. A suspicion being excited of improper management, produced a demand upon the bank for specie, in liquidation of the bank notes; but, as we have already said, they had no specie, and being compelled to acknowledge their situation, declared a willingness to receive their notes in payment for all debts that might fall due to the bank, but that they were unable to propose better terms.

By what we formerly said, the notes of a bank thus situated, would still be objects of desire, because the individuals indebted to the bank, would receive them as gladly as actual specie.—They must either procure these to redeem their own notes, or else procure specie. The notes of this bank, would then, still have been desired objects, and perhaps have depreciated but very little, or indeed none; but it so happen-

ed, (from causes not necessary to enter into) that a large portion of the debtors to the bank became bankrupt, and unable to redeem their notes. The consequence was, that there were more bank notes in existence, than the solvent debtors desired, and therefore, from the efforts of each holder to dispose of his individual quantity, the price rapidly depreciated, and when every solvent debtor had purchased his desired quantity, the remaining quantity became valueless.

The evil in this case arose from the bank possessing no funds of its own; because, when this circumstance was known, it justly destroyed the confidence which the community had been in the habit of placing in it, and made them know that the loss sustained by injudicious loans to individuals, must fall upon the holders of the notes. Had it been known that the bank possessed a capital able to sustain the loss, the notes would still have continued objects of desire; the knowledge of the contrary made them cease from being so.

By the event of this bank, we may perceive, that it is necessary every banking institution should possess some capital to serve as a guarantee against occasional losses, or their paper will not be confided in.

When a bank possesses a capital of its own, the public have a very strong guarantee for the goodness of its paper. First, every bank note in circulation is represented by the security of at least two individuals, who are supposed responsible for the amount they borrow.—Secondly, the capital of the bank and the profits of the institution, stand pledged as a farther security to shield the creditors of the bank from suffering by the possible failure of any of its debtors.

So long as the losses of a bank do not exceed the amount of its capital the public creditors are secure.

It is frequently heard, from persons conversing on the subject of banking, that the banks are now operating (in this country) without capital. This is a mistake proceeding from a wrong view of the subject. By saying that they are operating without capital, they mean that they are operating without specie, which is another, and a very different operation. The notes of a bank may be perfectly secure and good, and yet the bank possess no specie; but the notes of a bank cannot be so very secure and good if it possess no capital. By what we have already said on this subject, the difference, in the two cases, will be very evident. A bank that possesses no capital will not be much more secure than a private individual: because if the pri-

vate individuals fail, who have given their securities for the notes in circulation, the note holders will have to bear the loss, because the bank possesses no capital to indemnify them. But a bank that possesses capital will be much more secure than a private individual, because, if the private individuals fail who have given their securities for the notes in circulation, the bank-note holders will still be indemnified out of the capital owned by the bank.

We have said that a bank may possess capital, and still not possess specie. That the banks in this country do possess capital, we have (in most of them) every possible evidence, and the amount of that capital is also correctly known. It is immaterial to the security it affords, whether this capital be in specie, in lands, or in notes of other banks. The only concernment of the public is, that the fund shall possess sufficient value to compensate for any losses which the bank may sustain by the failure of its debtors. The capital of a bank, established at the present time will, on account of the want of specie, chiefly consist of debts against other banks. The stockholders pay into the bank, at its first establishment, notes of different banks that are then in operation. The notes thus received from the stockholders, constitute the capital of the new bank. Whether specie be obtained for these notes, or whether it be not, is a matter of but little importance, because the only superiority the specie would have over the notes, is, that it is placed beyond the casualties which the most secure credit capital may, possibly, be subject to. In practice, however, it is still less important than it is in theory, whether the capital thus received be in specie or not, because no bank keeps this capital unemployed, let it consist of what it may—they loan it out to individuals whose notes they receive to represent it. The security of the public, therefore, depends more upon the debtors to a bank, than it does upon any capital reserved in the bank; and the only advantage, in point of security, derived from a bank owning part of the capital it employs, is, that in ordinary transaction,s the amount lost by the bankruptcy of individuals will not be more than the fund owned by the bank. So long as this is the case, no losses sustained by any bank can affect the holder of its notes; but if the losses sustained by a bank should exceed the fund owned by the bank, then the loss must fall on the holders of bank-notes, without the bank retrieve this loss in its future operations. To make our meaning more distinctly understood, we will suppose a bank to commence operation with a capital of one million of metallic dollars.—We will say that it shall loan to individuals the dollars, and also two millions of its own bank-notes.—The bank will then possess endorsed notes of individuals to the

amount of three millions of dollars, and the public will possess the promissory notes of the bank to the amount of two millions. We will say, that individuals, to whom the bank loaned a million of dollars, shall become bankrupt, the bank will still be possessed of good notes to the amount of two millions of dollars, and therefore the bank-notes will remain secure. They are still represented by an equal amount of good notes in the hands of the bank. If the bank lose more than a million, it will have lost more than its capital, and accordingly it will be unable to liquidate its bank-notes, if their succeeding operations be not sufficiently profitable to redeem the loss.

We will now suppose another bank, and differently circumstanced, that shall commence operations with a capital of a million of dollars, which shall however consist of notes of various other banks, and not of specie.—We will say that it shall loan three millions of dollars of its own notes to various individuals who shall of course give endorsed notes to represent the amounts they borrow. In the course of its operations, borrowers to the amount of one million of dollars shall become bankrupt. The notes in circulation (three millions of dollars) will still be good, because the bank has yet in its possession notes of solvent individuals to the amount of two millions of dollars, and also demands against various other banks, to the amount of one million, (its original capital) accordingly, unless the bank lose more than the million, (the amount of its capital) the holders of bank-notes will not be sufferers. From the view of these different operations it does not appear so material to the security of bank-notes whether the capital be in dollars or in other articles of capital. It frequently happens, (and especially latterly) that much of the capital of a bank consists of the endorsed notes of its stockholders. When a bank calls for a farther quantity of its capital to be paid in, it is not unusual for the stockholders to obtain discounts for the purpose of paying the amount thus borrowed, into the bank that requires it of them. We will say a bank shall require from its stockholders, a farther portion of its capital to be paid in, say a million of dollars, and that the stockholders shall obtain on loan from this bank, the very capital with which they meet this payment. After the bank-notes have been thus returned, it will appear that the only thing the bank has obtained (by this demand on the stockholders, to pay in a million of dollars of capital,) is, that it has obtained that amount in endorsed notes of individuals. The capital of the bank will therefore lie in these endorsed notes, and for the sake of clearness, we will say all

its capital shall be thus situated, and that it shall be one million of dollars. It shall now loan out to different individuals three millions of dollars in bank-notes. The security of the bank-note holders, will lie in the endorsed notes which the bank holds to represent all its notes in circulation, and also in the endorsed notes which it holds for one million of dollars more than the amount of its bank-notes, being those which it received from its stockholders. The bank-notes in circulation are three millions of dollars, and the endorsed notes held by the bank are for four millions. The bank-notes will therefore continue to be secure, even if debtors to the amount of a million of dollars should become insolvent, because the bank will still possess good endorsed notes to the amount of the bank-notes in circulation, say three millions of dollars. In this case then, the same as in any other, the bank-notes will continue secure as long as the losses sustained by the bank do not exceed its capital. Nor does it appear to be material to the security of bank-notes, whether the stockholders make their payments in actual specie or in their individual notes; that is, provided their responsibility be undoubted. There will in fact be no difference, for had the specie been obtained, either that, or notes to represent it, would have been loaned on endorsed notes; and therefore, receiving endorsed notes in the first instance, does not make the operation less secure, if the notes be equally trust-worthy.

Bank-Notes are insecure, in proportion as the emission exceeds the capital.

That there is a risk in the most secure notes of individuals, our experience may sufficiently inform us. There is perhaps no bank but meets with some l sses. It is reasonable to suppose, that a bank which has continually two millions of dollars loaned out, will lose annually by failures, a larger sum than another bank that has only one million loaned out The larger then, the amount loaned, the larger, probably, will be the sum lost.

If a bank emit notes to no greater amount than its capital, it will be impossible that the public can lose by holding its paper, because if all the borrowers, who gave their endorsed notes, to represent the bank paper in circulation, should become bankrupt, it would not injure the capacity of the bank to redeem its paper. It would still have its capital entire to be applied in thus redeeming, and although it would be deprived of its whole capital by this bankruptcy of its debtors,

yet the creditors of the bank would not lose by this misfortune. If, however, a bank emit notes to twice the amount of its capital, and be equally unfortunate, then the creditors must also suffer, because, as the bank notes in circulation amount to two millions, and the amount of capital is only one million, no more than half the amount of the bank notes can be redeemed.

It therefore appears to be a wise restriction, imposed by many Legislatures, that no bank shall have the power of emitting notes to more than twice or thrice the amount of its invested capital. And so long as banking transactions are restrained to such limits, it must be a more than usual occurrence, that would accumulate losses on them sufficient to absorb their capital, and thereby endanger the public creditors.

If this capital be equal in amount to one half its bank notes in circulation, then the security of the notes will not be endangered so long as one half the amount of the debts due to the bank, shall be collectable. If the capital of the bank be equal in amount to one-fourth of its bank notes, then the security of them will not be endangered so long as three fourths of the amount of debts due to the bank shall be collectable, and the security in the same way diminishes as the excess of its loans increase, because it is more consonant to experience, that there is less danger a bank should lose half its debts, than there is a bank should lose one quarter of its debts ; but even that it should lose this proportion of them, would seem to require some extraordinary commotion in the commercial world, or some extreme want of prudence on the part of the bankers, difficult to conceive, and rarely to be expected.

The objection most frequently urged against the establishment of banks, is the calamity that would ensue from a failure of their responsibility. Whether such an event would produce the serious evils that are apprehended, we will not now consider. We attempted to show, that their stability, generally, rests on a foundation, as secure, in all probability, as most human institutions. Their stability is, at least, equally secure as the prosperity of the community in which they are situated,-and instead of any public calamity originating with them, they can, on the contrary, scarcely fall without it is as the victim of public calamity.

To suppose the failure of a bank, we must previously suppose a failue of its creditors, and to suppose a general failure of all banks, would be no less than to suppose a previous ruin of the whole nation; a supposition too absurd to make the motive of any reasonable action.

Any theory that deduces evil as a future consequence, can seldom fail of being incorrect, when applied to banking, or any other operation of man in society. Because it is his chief concernment to avoid evil, and the tendency of any measure is no sooner perceived, than he immediately accommodates his pursuits to its operation, and turns it to his eventual advantage.

THE END.

THE ADVANCED VALUE OF GOLD,

SUSPENDED SPECIE PAYMENTS,

LEGAL-TENDER NOTES,

TAXATION AND NATIONAL DEBT,

INVESTIGATED IMPARTIALLY:

BY A. B. JOHNSON.

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ANALYTICAL SUMMARY

OF

ONLY A PORTION OF THE CONTENTS.

I. Government Loans increase a nation's capital to the amount of the loans.

II. The annual productiveness of the new capital over the annual taxes it occasions, determines the pecuniary benefit of the increase.

III. The interest paid customarily, in any locality, for the use of borrowed capital is governed by the customary productiveness of capital in the given locality; but must always be less than the productiveness; and as governments can usually borrow at a less rate of interest than private persons, government loans constitute a more lucrative increase of a nation's capital than any increase by private borrowers.

IV. The interest paid for borrowed capital is borne only directly by the borrower, but indirectly by the public; and the benefit from the employment of borrowed capital is not limited to the borrower, but is shared by all persons connected, directly or indirectly, with the operations, proximate and remote, to which the borrowed capital is applied. The industrial pursuits of a country are usually limited by only the capital, natural and borrowed, possessed by the country.

V. Taxes are, on the contrary, impoverishing to a people to the extent that the taxes are imposed to defray the expenses of a war, or to provide a sinking fund for the extinguishment of a national debt. Taxes, to the extent that they are necessary to pay interest on a national debt, are a necessary evil.

VI. The repudiation of a national debt, instead of pecuniarily benefiting a country, impoverishes it to the extent of the mag-

nitude of the repudiated capital. The repudiation would injure every member of the community to the extent that the benefit from the debt derived to him annually in all his operations, direct and indirect, would exceed the amount he would save annually in taxation. No fallacy is more prevalent and false than that the larger a national debt, the greater is the motive for its repudiation. The converse of such an opinion is the truth. The public debt of Great Britain, the largest the world ever knew, constitutes the most instructive practical lesson of history, but one which mankind seem persistently determined to ignore, by fallaciously assimilating a national debt to the debt of a private individual, and thus disregarding the distinction between man who soon, by disease, age or wealth, abandons the employment of capital, and a nation perennially young and vigorously employing all attainable capital.

VII. Why war disbursements, when liquidated by the creation of a public debt, should increase a nation's capital is not obvious, but many persons who are drones in peace, become in war active producers of capital; even the destructiveness of war stimulates men to produce, in any given time, more capital than they produce during a like time in periods of peace. The conflagration of Moscow aroused a creative activity throughout Russia, that soon compensated for the destroyed capital, and has been in beneficial operation ever since. Men of invariable income, and men of no enterprise, who abstract themselves from all surrounding activities, are usually the only classes to whom a national debt is, by the taxes it creates, an unremunerative evil.

VIII. Legal tender notes being compulsorily receiveable, as gold and silver, in payment of all debts, present and future, no limit can be assigned to the quantity of such notes for which an ultimate use equivalent to gold and silver will not constantly exist; the aggregate of the use being at all times greater probably in amount than the aggregate of the existing notes. The French revolutionary assignats, and our own revolutionary continental money became worthless by reason only of the uncommercial

character of the people and the consequent non-existence among them of a sufficient volume of indebtedness to serve as an adequate basis of the paper.

IX. The par value of legal tender notes is secured by the above principles irrespective of any promised ultimate payment of them by government; still gold and silver are become more valuable than the notes, because the notes, available for a specie use on any given day, exceed in quantity the amount required for the given daily use. To make any paper money equal in value to gold, the paper must possess a present use that it and gold can alone supply. The depreciation of legal tender notes, as compared with gold, is shared equally by bank notes, and with all present liquidatible bonds, mortgages, and other securities, and is therefore not invidiously peculiar to the legal tender notes; and the said equality of all kinds of paper money must continue as long as the notes remain a legal tender.

X. The belief is fallacious that the present possessor of paper money, legal tender notes included, is injured to the extent that the paper is less in present value than gold. Banks are almost the sole possessors of the gold of the country, and by their suspension of specie payments, they suddenly exclude the gold from all the accustomed uses therefor, and thus by a species of monopoly, produce an artificial scarcity of gold, and a consequent rise in its market value. Should all the wholesale holders of tea, coffee or sugar suspend, suddenly, the sale thereof, no person would be surprised at a sudden rise in the price of those articles. For these reasons, an advance in specie has always followed immediately every suspension of specie payments, and it would follow, were the suspension limited by agreement to a single week. The Dutch once had a monopoly of the country that produced nutmegs, and they are accused of having occasionally destroyed a portion of the annual crop, to enhance the price of the remainder; but banks improve on this scheme by only withholding the supply of gold, instead of destroying any part of it.

XI. The equivalence in value between paper and specie is, at all times only artificial. The equivalence is produced by limiting the creation of paper money to an amount that the specie which is procurable can liquidate. Independently of this artificial equivalence, paper money and specie are severally subject, in their relative value, to the common commercial principle of supply and demand; paper money being more valuable than gold when the supply of paper money is more deficient in quantity to the demand therefor, than the supply of gold; and so, vice versa, we may say of gold.

XII. When paper and gold are of an equal value to each other, money is not at all times of an invariable value,—indeed few commodities are more fluctuating in value than money. Gold and paper together obey the laws of supply and demand, as certainly as gold and paper separately; and accordingly nothing is more common than to say, money is cheap or money is dear.

XIII. The measure of the cheapness of money is the advance in price of other commodities; and the measure of the dearness of money is the decline in price of other commodities.

XIV. The cheapness of money is consequent to its existence in temporary excess of the present uses therefor; and the dearness of money proceeds from an opposite condition. The permanent excess in quantity of money or any other object of value is unattainable, men ultimately conforming their operations therewith to the attainable quantity. The like may be said conversely of any permanent deficiency of any article. The disturbances in the price of any article are the natural means by which an equilibrium is produced between supply and demand.

XV. Legal tender notes are, in their effect, a forced loan without interest; but taxes are a forced gift, coupled with an injury in addition when the taxes are to diminish a national debt.

XVI. A sinking fund operates as a continuously increasing bonus to the owners of government stocks, at the expense of all other classes of persons; hence the owners of public stocks are

the greatest advocates of a sinking fund, and the worst advisers thereon a government can consult.

XVII. A sinking fund created by taxation, injures every tax payer to not only the extent of his tax, but indirectly by the diminution of the national capital. A sinking fund differs in its economical effect from repudiation, by only cancelling a national debt at the expense of all tax payers, instead of cancelling it at the expense of fund holders alone.

XVIII. Whatever diminishes the uses of gold over paper money, legal tender notes included, enhances the relative value of gold over paper money, and vice versa; hence paper money is not unfrequently more than equal in value to gold.

XIX. The policy and expediency considered of several proposed measures to lessen the existing difference in value between gold and legal tender notes: as for instance, the policy of restraining banks from issuing bank notes and of hoarding gold when the banks suspend payments, and the policy of allowing the exportation of specie.

XX. The policy and expediency considered of some existing measures: as for instance, the discrimination by government in favor of gold and against legal tender notes, in payment of import duties, and in payment of interest on the public debt; the first discrimination is a necessary consequence of the second, and is just what fund holders would have dictated had they possessed the ordering thereof; but just what the rest of community would have deprecated; every percentage of increase in the value of gold becoming a ratable increase in the tariff of duties at the expense of all consumers, and a ratable increase in the interest of the public debt, at the expense of all tax payers.

XXI. The payment of interest by the government on deposits of gold, increases the uses of gold, and necessarily enhances its value. The measure is another legitimate consequence of the bonus given to fund holders in paying them their interest in gold; government having to procure gold by purchase or other enhancing expedients.

THE ADVANCED VALUE OF GOLD, &C.

GOVERNMENT LOANS INCREASE A NATION'S CAPITAL TO THE AMOUNT OF THE LOANS.

The principle above announced was strikingly manifested when the debt of our revolution was consolidated into public stock. The debt was of doubtful value, but the stock into which it became consolidated, was equivalent, in its commercial and industrial effect, to a like amount of gold and silver, and every branch of business felt the new capital, and expanded accordingly. A like result attends, measurably, every new issue of government stock. The stock requires for its continued vitality, that the government shall annually exact from the people, by taxes, the interest which is payable on the stock; and this exaction constitutes the only practical difference between stock and gold; consequently, the annual benefit or injury which a country will sustain by reason of such a stock, will depend on whether the benefit is more or less than the interest abstracted annually from the country in the taxes which the stock occasions. In this particular, government stocks are not essentially different from bank notes, for all bank notes represent the promissory notes of some borrower who pays interest on the bank

notes, and who collects from the public, in the way of profits, the interest which he pays the banks. We know that capital is ordinarily borrowed with avidity, and interest paid thereon as a means of pecuniary gain to the borrower, and hence we may well conclude that the aggregate which the public gain, by means of capital created by government loans, exceeds the annual taxes necessary for the continued vitality of the government debt. But this fundamental fact rests on more than the inference just adduced; it being seen practically in the increased activity and general prosperity which always attend what is technically termed an inflation of the currency of a country, the inflation being only a consequence of the ability of all men to obtain loans to the extent that good security can be given therefor. No limit, indeed, but the limit of capital obtainable, exists to the industrial operations of any country. As a general rule, every man is active to the extent of the capital he can command, and the activity is induced by its expected pecuniary productiveness to the actor. The only evils attendant on currency inflations are the uncertainty and usual briefness of their continuance; but such evils are not attendant on increased capital by government loans, they being of permanent duration. The commercial vigor of Great Britain is a living exponent of the effect of great capital on the creative energies of a people, and produced, to a given extent in Great Britain, mainly by a national debt, the largest ever

created; and which, at every step of its creation, was deemed, by superficial thinkers, a precursor and element of national ruin. The general benefit resulting to individuals from a national debt, is analogous to the well understood benefits to every business man, of residing in a rich city; the fortune to which any man can attain being usually regulated by the wealth of his locality; while the great expense in rent, food and labor, in cities are a tax that every resident willingly pays, for the advantages of residing in the neighborhood of accumulated capital.

TAXES TO SUPPLY THE EXPENSES OF WAR, ARE IMPOVERISHING.

The taxes requisite to a continued vitality of national loans, are therefore more than repaid by the aggregate lucrativeness of the capital which loans create; but when taxes are levied to supply funds with which to conduct a war, such taxes constitute a pecuniary evil to the tax payers, with no resulting pecuniary benefit. Nations who conduct wars by taxation, instead of loans, are, of necessity impoverished thereby; and the like may be said of any portion of war expenses liquidated by taxation. Taxes should never be levied for more than the least sum sufficient to pay interest on a public debt; consequently, the lower the rate of interest at which money can be borrowed, the less will be subtracted from the benefit of the increased capital produced by any loan. Why, then, tax at all? Why not pay the interest of a public debt, by annually increasing the public debt,

and thus enjoy the benefit of the debt, as capital, without any countervailing drawback of taxation? An answer to these questions is necessary to a correct understanding of the foregoing arguments: Government stocks possess the nature of capital to the extent only of their market price, and the price will be regulated daily by the ordinary principle of the daily supply and demand; hence, as you increase the supply of any stocks, you diminish, ordinarily, their price. If, therefore, government habitually provided, by new loans, for the payment of interest on its public debt, the market value of the whole existing public debt might, by every such new loan, become diminished to an amount even exceeding the periodical increase; and thus the holders of the old stock would, in effect, receive no interest thereon. Public stocks are always owned, subject to a fluctuation in market price, consequent to the creation of new governmental loans, or other causes; but not consequent to a creation of new loans, to pay accrued interest on the existing debt; a tacit understanding to the contrary, arising from usage, being always understood.

We may usefully add, here, that, though stocks usually decrease in market price by every additional creation of them, the decrease is not necessarily of long duration, the public accommodating itself ultimately to any quantity that is brought into existence, of any object of human desire, so that a permanent surplus of any fixed quantity is impossible. Nature

is said to abhor a vacuum, and we may add, it abhors a surplus, and struggles against both with equal persistency and success. Still, a continuously increasing production of any commodity, may keep it constantly in advance of the present demand therefor; and the price thereof will diminish, temporarily, at any given time, in proportion to the excess of the supply at the time, over the demand.

TAXES FOR THE CREATION OF A SINKING FUND. ARE MORE INJURIOUS TO A PEOPLE; THAN TAXATION FOR ANY OTHER OBJECT.

The taxes a man pays towards the interest on government loans, he ordinarily is compensated for, by the increase of the national capital which the loans produce, as we have already shown; but the taxes which he pays towards a sinking fund, are injurious, not only in themselves, but in diminishing the national capital. Only one mitigation exists to such injuriousness, and it arises from the increased value that may ensue in the aggregate of the public stocks, that remains unliquidated. We saw an example of this, when President Jackson voluntarily extinguished, by payment, the 3 per cent. United States stocks of the revolutionary debt. They gradually advanced to par, from being 30 or 40 per cent. below par; but the rise was partly attributable to the known approach of a speedy liquidation of the whole at par. Still, the principle of the rise on that occasion, operates, to some extent, generally, and to the extent of its opera-

tion, tax payers will be injured, by a sinking fund, to the amount only of their taxes, without any additional injury from a diminution of the national capital.

THE REPUDIATION OF A NATIONAL DEBT INJURES TAX PAYERS MORE THAN IT BENEFITS THEM.

From the foregoing principles, we may understand the effect of a repudiation of any national debt. Repudiation relieves tax payers from the payment of the tax necessary to the vitality of the repudiated debt, but it deprives them of the capital which a national debt creates, and of its benefits which greatly exceed, to almost every man, the evil of his taxation. When our revolutionary debt was funded, the operation was the opposite of repudiation, by reviving a debt which was practically dead; and we know that the resuscitated debt invigorated all the productive energies of the country, and occasioned its first great start in almost universal prosperity. The larger a debt, therefore, of any nation, the greater would become the pecuniary evils of its expunction; though no financial fallacy is more prevalent than a belief that the larger a debt, the greater is the pecuniary motive for its repudiation. If all the public creditors of Great Britain would imitate the mistaken patriotism of the large creditor of the Emperor Charles the Fifth, who warmed the Emperor's chamber by a fire made of the Emperor's bonds, and thus annulled the public debt represented thereby, the British Empire, from being rich and powerful, would dwindle into comparative poverty and imbeciilty.

WHEN WARS ARE PROSECUTED BY THE PROCEEDS OF LOANS, THE NATIONAL CAPITAL WHICH WAR DESTROYS, IS, ORDINARILY, MORE THAN EQUALIZED BY THE CAPITAL WHICH THE WAR CREATES.

Why war disbursements, liquidated by the creation of a public debt should increase a nation's capital, is not obvious. The government receives from its citizens an amount of specie or other values, equal only to the public stock given therefor; hence the national capital seems neither increased nor diminished by the operation; and especially when the government employs the loans to subsidize foreign governments, as Great Britain has frequently practised, or to purchase munitions of war, which perish on the use thereof, as every government practices. In all such exceptional cases, the national capital will truly neither be increased nor diminished by the loans; and as the loans will require for their continual vitality an annual tax, the tax will be an evil with no corresponding benefit. The same principle applies, ratably, to the wages in money, food and clothing, paid, by government, to the soldiers which any war employs; for, had the soldiers remained in peaceful avocations, they would have created as much capital as they receive from government; but here commences a principle which modifies the above calculation. The men who constitute an army are, to some extent, drones in private life, and produce much less capital in the aggregate than they receive from government in pay, subsistence and clothing; and which receipt from

government, being represented by public stocks, augments the national capital to a greater extent than the capital would have been augmented by the soldiers in their civil capacity. This is one element of the seeming practical paradox, that modern wars, instead of impoverishing a country, increase its wealth. And though the munitions of war that are consumed, and the subsistence, clothing, &c., of the troops, would seem to be only compensated for as capital destroyed, by the capital created and paid therefor in public stocks; yet, by the stimulated activity that is evoked by the war consumptions of government, more capital is manufactured and produced than in times of peace. The destruction of capital occasioned by the conflagration of Moscow aroused a creative activity in Russia, which not only soon compensated for the destroyed capital, but it has continued ever since in active operation.

To construct an accurate balance between the capital destroyed by war in any nation, and the capital gained thereby, is, however, not the intention of the foregoing remarks. They are only suggestions to establish the following, four general principles: First, that where war consumptions are represented by public stocks, the national capital continues for all commercial purposes, unimpaired by the war. Second, that the only practical difference, as capital, between public stocks and gold, is the taxes that stock requires for its continued vitality. Third, that public stock as

capital, is annually productive of more wealth to a people than the amount of interest levied annually from the people in taxation. And fourth, that, as a nation's capital is annually augmented, in war, by the creation of a national debt, and otherwise, to a greater aggregate than the national capital would have attained, had the nation remained in peace, the augmented capital usually produces a pecuniary productiveness sufficient to counterbalance in profit, to the community, generally, the pecuniary evil of paying taxes on the portion of stock which represents capital that the war consumed. The four enumerated principles operate beneficially to many persons whom nearly every man may designate around him; but the generality of a like favorable operation must necessarily remain a matter of speculation, especially as taxes constitute an evil that every man feels, while the compensating benefit is discoverable only indirectly. Great Britain, we know, has grown rich, despite a taxation that, according to most theories, should have made it poor. Every nation contains some persons that can be benefited by no state of the country. Men of fixed incomes, and men who abstract themselves from all surrounding activities, and men of no enterprize, while they must be injured by a compulsory taxation, cannot be benefited by agencies which they are not compelled to employ, and which they will not adopt voluntarily.

The foregoing consideration of the pecuniary results

of war omits any calculation of the loss which a national capital sustains, by the death of capital producers; and in that cold character alone, political economy considers the soldiers who die in battle. From this source the loss of national capital is less than may be supposed, experience testifying that the population of a country is not much diminished by war. We are prone to suppose that every man slain in battle is an unnatural diminution of a nation's population, while the most which can be truly said is, that the death only anticipates by usually a brief time, the natural death that is the fate of all men.

LEGAL TENDER NOTES MUST CONTINUE AS VALUABLE, ULTIMATELY, AS GOLD AND SILVER TO THE EXTENT OF THE DEBTS THE NOTES CAN LIQUIDATE.

The notes, as a legal tender, constitute, for all existing debts, an equivalent to gold and silver, for an amount that we know is far greater, in the aggregate, than all the notes which government has yet created, and the volume of indebtedness being ordinarily renewed daily, to the extent of the day's liquidation, we can hardly conjecture any limit to the amount of such notes, for which an ultimate specie use will not exist The French assignats, and our own former Continental money, became worthless, because neither France, nor our old Confederation, was commercial enough to afford existing debts of a sufficient aggregate to give a liquidating use to all the assignats and Continental paper that the exigency of the government created.

THE NOTES OBEY THE LAW OF SUPPLY AND DEMAND.

But though our legal tender notes are in ultimate value equal to specie, they are greatly depreciated from the par standard of gold and silver; the liquidating specie use of the notes on any present day, being insufficient to employ all the notes that are available for such use on the given day; hence, like all other surplus things, the notes decline in present value in a degree proportioned to their surplusage. When banks paid specie for their bank notes, an unfortunate bank would occasionally suspend payments. If it held discounted notes of solvent debtors, and was willing to receive payment thereof in its own bank notes, the bank notes would not depreciate in value so long as the amount of them, collectable daily, was not in excess of the amount required daily by the bank's debtors; but if the bank notes outstanding were daily in excess of the daily use thereof, every holder would make some concession in price of his bank notes, to induce the bank's debtors to take them; and the market value of the bank notes would depreciate daily in proportion to the existing daily surplusage. The same principle is operative in our government's treasury notes that are receivable, as gold, for custom duties. The amount daily procurable is in excess of the daily dutiable payments, and the price of the notes recedes from gold in proportion to the surplus. A holder of them who knows he shall need them in payment of duties some weeks or months

hence, will not deem their present value to him equivalent to gold; hence, if government should to-day issue a notice that the legal tender notes, shall be hereafter receivable for duties as gold, the notice would not make the notes equal in value to even the present dutiable treasury notes. To become equal in present value to gold, any paper money must possess a present use that it and gold can alone supply. In every general suspension of specie payments by banks, as at present, bank notes never have kept, and never can keep, a par value with gold; and the depreciation of the bank notes is wholly irrespective of any doubt of the ultimate specie redemption of the notes.

LEGAL TENDER NOTES MUST CONTINUE TO POSSESS A PRESENT VALUE EQUAL TO OUR BANK NOTES.

Legal tender notes are rather more desirable than bank notes, they subserving some uses which the bank notes cannot; while the bank notes can subserve no uses which the legal tender notes cannot subserve. Nor can this relative value ever be changed to the disadvantage of the legal tender notes, the banks being compelled to receive the tender notes in all payments due to the banks, and hence, are indirectly compelled to receive them on deposit, as money; for, should the banks refuse to receive, on deposit, legal tender notes, as was once mooted, all bank debts would be paid in legal tender notes; and thus, by the amount of tender notes forced on them, the banks would lose all the proposed advantages of a discrimi-

nation between the two currencies. Legal tender notes are thus assured permanently in every locality of the Union, a value equal to bank notes; and the present depreciation of the legal tender notes, as compared with gold, is a common depreciation of paper money, and not invidiously peculiar to the government currency.

BANK SUSPENSIONS CREATE ARTIFICIALLY A RISE IN THE VALUE OF SPECIE.

A belief is common that every possessor of paper money, legal tender notes included, is injured by the depreciation of the paper, to the extent of the premium that is paid for gold. This estimate is essentially fallacious. Whenever banks have suspended specie payments, specie has immediately advanced in value over the bank paper. The reason for such advance is obvious enough when we reflect, that the banks are almost the sole possessors of the specie of a country. Whoever receives specie, forthwith deposits it in some bank, relying that he can obtain any desired quantity when he applies therefor, with the paper of the bank; hence, when all banks suspend specie payments, the whole existing specie of the country is forthwith excluded from public use, arbitrarily imprisoned in the banks' vaults; and however much the actual need of specie is diminished by its being no longer required by banks as a basis of their issues of notes, yet the remaining uses for gold, the dutiable uses, the exportable uses, the hordable and mechanical uses cannot be

supplied; and therefore a rise in price must ensue, precisely as coffee, tea or sugar would rise in price, if all the wholesale dealers therein would suddenly refuse to part with any of the articles, but doggedly keep them locked up in their warehouses. And especially must we remember that usually banks suspend specie payments greatly in advance of the exhaustion thereof from their possession The banks in New York City possess, at this moment, nearly forty millions of specie, chiefly gold; and a like plethora exists in all the city banks of the Union; and measurably in country banks. Need we wonder, therefore, that this open monopoly of the precious metals, this abstraction of them from all customary uses therefor, should create, in the exchangable value of specie, a rise over paper independent of any depreciation of the paper money? Our wonder may rather be that gold and silver have not appreciated further, and doubtless they would have appreciated greatly further, had not the dutiable uses of specie been supplied by the thirty millions, more or less, of outstanding treasury notes which were procurable by the public, and by the sums in gold which have been disbursed by the government, in payment of interest on the public debt.

THE EQUIVALENCE BETWEEN PAPER MONEY AND SPECIE, IS ALWAYS PRODUCED AND PRESERVED ARTIFICIALLY ONLY

During specie payments, bank notes are governed in quantity by the amount which can be paid on demand in specie; hence, when any exigencies dimin-

ish the specie of the banks; or any exigencies have caused a greater issue of bank notes than the specie of the banks can surely redeem, every bank hastens to diminish its outstanding bank notes, by diminishing its outstanding debts; that the equilibrium may be restored between the amount of the circulating medium, including bank deposits, and the obtainable gold that is sufficient to liquidate, on demand, the bank notes, &c., that are daily bought for redemption. Bank notes and gold are thus artificially made to occupy an equal value. But a man who estimates as a loss the present difference between the value of his paper money and the value of an equal number of dollars in gold, subjects himself to a further fallacy by reason that the paper dollars in his possession are probably much more numerous than the number would have been had gold and paper continued artificial equivalents of each other.

MONEY ITSELF POSSESSES NO UNVARIABLE VALUE.

When specie and paper are at par value with each other, the supply of money is often much less than the demand; but of its consequent rise in value, no standard measure exists, except a simultaneous depreciation in the market price of houses, lands, and all other commodities: and when specie and paper are at par value with each other, and an excess of the supply exists over the demand, no measure exists of the consequent depreciation in value of money, except a simultaneous rise in the price of all saleable commodities.

In neither of the above alternatives are we accustomed to say that money is depreciated in value, or appreciated, though the said cases are no way essentially different from what paper disconnected from gold, is now evincing. All we can properly say now is that relatively to each other, paper exists in excess of the demand, and gold exists short of the demand. Abstractly considered, the uses for gold have diminished, by reason that it is no longer used as money, nor as a basis of our paper currency; and therefore the supply of gold should properly exist in excess of the other demands therefor, and its exchangeable value should fall; but it seems to rise in value, a rise occasioned in no small degree artificially by its engrossment in banks.

Having thus considered the natural laws of monetary affairs, we may examine what may be done, artificially, to make government's legal tender notes more nearly equal in value to gold than they are at present, government being said to desire such an equivalency. It may be accomplished equally well, by either diminishing the quantity in existence of the notes, or increasing the uses therefor. To increase the use, no measure is so available as to induce the holders to fund the notes in some permanent stock of the United States. The notes are now fundable in a five years 6 per cent. stock, which practically is found an insufficient inducement to accomplish the desired end. The 20 years 6 per cent. stocks are, on the contrary, selling at a premium, but as government will not issue

those stocks for legal tender notes, the preference evinced by the public for the long stocks, is not available to diminish the existing surplus of the legal notes. A general privilege to convert the tender notes into the long stocks might operate measurably to overcome the present excess of par value, which the long stocks now sustain; yet the existing premium on the 20 years stock, shows the direction in which a new demand may be created for the legal tender notes; and the like may be said of any new stock more lucrative than 6 per cent., or longer than 20 years, that may be deemed proper for the given end. The existing convertability of the tender notes into only a five years stock, has no effect but to protect from depreciation the existing 20 years stock, and thus to benefit the holders thereof; but how far a motive so personal and limited in its operation, should control the government, the government alone can decide.

LEGAL TENDER NOTES, BY BEARING NO INTEREST, CREATE A CAPITAL THAT MUST SEEK SOME PRODUCTIVE INVESTMENT.

The legal tender notes originated in a belief that the notes would supersede bank notes, and hence be needed as currency; but every bank prefers to issue its own paper, and to use the legal tender notes for other purposes; and as the public seeks no conversion of bank paper into tender notes, bank notes, answering, practically, all the purposes which the legal tender notes subserve, the whole mass of tender notes only augments the existing surplusage of capital that is seeking

a profitable investment. The result of the surplusage is seen in the unprecedented magnitude of the deposits of banks everywhere, and in the stimulated and unhealthy competition that exists for all interest-bearing stocks, and, as usual, by sympathy and contagion, for all other stocks, and, ultimately, for all kinds of property; for though speculations commence in intellectual considerations, the intellect becomes, eventually, subordinated to men's emotions; and speculation becomes a passion, which, ultimately, like extreme hunger, devours indiscriminately whatever comes within its reach. Some men continue intellectually possessed enough to know the nature of the speculatory traffic that is in progress, but they will purchase at high prices what they know to be worthless, believing that less intelligent or more reckless speculators will repurchase the articles at still higher rates.

Government has endeavored to create a lucrative use for the legal tender notes only in five years 6 per cent. stocks, already alluded to; and in giving 4 per cent. interest on deposits thereof, with the assistant treasurers; but the rate of interest proves itself, like the offer of stock, to be an insufficient inducement to the holders of the paper. Why enough interest should not be given to absorb the notes in either deposits or stocks, is difficult to comprehend; for no good reason is apparent why government should not pay for the money it wants what is requisite to obtain

the money, instead of unnecessarily creating a surplus of unproductive capital.

THE FINANCIAL UTILITY OF TENDER NOTES MUST NOT BE PREJUDICED BY ANY CURABLE DEFECTS IN THE MANAGEMENT OF THEM.

As a means of borrowing money, no mode can be devised so prompt, effectual, and little expensive, as the issue of legal tender notes to the extent of the sums from time to time desired; if connected therewith, a profitable use for the notes can be created; but to issue the notes without supplying such a use, the notes become a species of forced loan without interest, and therefore the worst conceivable means of obtaining money, excepting taxation, taxes being a forced gift, and, therefore, worse than a forced loan. We may concede that government can raise all necessary funds by sales of new stocks, and taking in pay therefor irredeemable bank notes; but independently of the large gains which loan contractors would exact from the government for becoming the instruments of diffusing such stocks through the community, and the necessity which would ensue that the government should circulate among the public creditors, irredeemable bank notes, as was practised in the war of 1812, the circulating medium would be increased by the operation as much as by the issue of legal tender notes. Even should government issue proposals for new loans, receiving in payment only its own tender notes, the price at which any loan could be negotiated

would always have reference to the obtainability of legal tender notes; and, therefore, government has no option but to issue legal tender notes for the loans it would negotiate. The only question is, whether the notes shall be funded by the public day by day, or in large masses by stock contractors. No doubt, persons who would become contractors for new loans, would advise the last named mode of raising funds, in preference to an augmented issue of legal tender notes with such an increased inducement to fund them, as shall be found practically efficacious. The alternative to be selected, is, of course, a matter of practical judgment; but with a proper pecuniary inducement to fund or deposit the legal tender notes, no great addition, if any, need be made to the mass already in existence, government reissuing the notes that shall come back from time to time, into its possession, by the funding, or other process, that government shall devise.

To remedy any existing surplus of paper money, and thereby to obviate objections against an augmented issue of tender notes, some persons propose a prohibiion against any paper money, except tender notes. The prohibition would doubtless be a less expensive diminution of paper money than the creation of a profitable use for the legal tender notes, by funding them, or otherwise. But we must not wilfully ignore, that government has already tried the experiment with paper money, of sums less than a dollar; and yet, despite the prohibition, the whole Union is in a process

of becoming almost covered with the prohibited fractional currency. But the larger currency is deemed more managable than the fractional, and a bankrupt law, and other means, are suggested, as available to the advocated prohibition. Having no confidence in the practicability of the measure, I shall leave it, with the single well attested axiom, that governments are always more successful when their measures conform to the habits of their people, than when they endeavor to make the people's habits conform suddenly with any conflicting measures that the government may deem preferable.

Analagous to the foregoing measure, a prohibition against the exportation of specie has been suggested, as a corrective of the existing appreciation of gold over paper money, tender notes included, and, no doubt, whatever will diminish the uses of specie, will diminish the demand therefor, and, consequently, correct ratably any deficiency of the existing supply of gold to the existing demand. Nations not unusually prohibit the exportation of their coins, but they rarely prohibit the export of bullion, thus manifesting that the prohibition of coin is not founded in the attempt to diminish the relative market value of gold and silver generally. Our exports of specie are manifestly not large enough to be a very efficient cause in the present price of gold, thus showing that other uses therefor exist, and which the prohibition will

only slightly affect. And we must remember that gold is one of our own productions, and that any arbitrary legislation against its natural and accustomed uses could not fail to discriminate disadvantageously and offensively against our gold-producing regions. Far less invidiously might legislation be directed against the persistent monopoly of the precious metals by banks, after the banks refuse to employ them as a redeeming fund. A release of the specie thus monopolized would probably go far to reduce the present price of gold to its normal value, and no great cause of complaint would seem to exist, if banks were perpetually restrained from a suspension of specie payments so long as they possessed any specie; and certainly nothing seems more unreasonable than to permit banks to profit in their specie by any advance in the price thereof, produced by a suspension of specie payments, a suspension which banks can always avoid by a timely conduct directed to that end. Still, reasons can doubtless be suggested against any such coercion of banks, as well as against a prohibition of the exportation of specie, or interfering in any other way with the freedom of commerce. While we direct our speculative investigations to the causes of existing events, we usually are in little danger of great practical mischief; but when we endeavor to foresee the future consequences of new and untried measures, the good we theoretically anticipate may not occur, but

evils, unforeseen and of great magnitude, may arise in its stead.

Another correction of the price of specie, by diminishing the uses therefor, may ensue from a discontinuance of the discrimination government itself has established in favor of specie and against its own legal tender notes, in the payment of duties on imports, and in the payment of interest on the public debt. When interest on the public stocks was made payable in specie, the regulation had reference to a sale of the stocks by government; but the mode thus contemplated of obtaining funds was found impracticable to any desired extent, and was abandoned. The specie payments of interest, therefore, operate only as a pecuniary gratuity to the persons who hold government stocks; and who are less objects of worthy consideration than the multitudes of persons who are compelled, by law, to surrender, daily, interest-producing debts, and to receive therefor legal tender notes that bear no interest. As one step usually leads to more in the same direction, the promised payment of interest in specie compelled government to disallow the reception of legal tender notes for import duties, that specie might be provided to pay interest on stocks; and, we may suppose, a like reason induces government to create a new use for gold, by paying interest thereon at its assistant treasuries. During the whole period of suspended specie payments by Great Britain, the public creditors, foreign and well as domestic, were

paid in paper money. Still, the present method may be founded on better reasons than are known to the writer; but how justifiable so ever the reasons may be, the uses which government necessitates for specie, tends to enhance its market value, and ratably to diminish the equivalence between specie and legal tender notes.

Having thus considered briefly, and, I hope, intelligibly, the financial topics prominent at the moment, I conclude by disclaiming any partisan design therein; and in proof thereof, I have asserted nothing different from what I thought fifty years ago, and published in the year 1813, through the then New York extensive publishing house of G. & C. Carville, at No. 108 Broadway, under the title of "An Inquiry into the Nature of Value and of Capital, and into the operations of Government Loans, Banking Institutions and Private Credit, by Alexander B. Johnson." The book contained as an appendix, "An Inquiry into the Causes which Regulate the rate of Interest, and the price of Stocks." The work gained some attention by its adaptation to the circumstances of the country at the time, and especially under the apprehension of a suspension of specie payments by the banks, an event which had never been experienced in our country, and the consequences of which the book endeavored successfully to foresee. The book has long been out of print and forgotten, and I possess thereof a single copy only. If the present condition of our country

shall revive an interest in the teachings which I have herein extracted from the work, it will constitute an additional proof of the apothegm of Shakspeare, that "Many things by season seasoned are to their true use."

UTICA, NOVEMBER, 1862.

NOTE.

By the capital of a nation, I mean the aggregate therein of all things that possess a marketable price. Whatever a person can sell for some other article that he desires to possess, is an item of capital, according to the sense in which the word capital is employed by the writer.

OUR MONETARY CONDITION.

BY A. B. JOHNSON.

OUR MONETARY CONDITION.

BY A. B. JOHNSON,

AUTHOR OF "TAXATION AND NATIONAL DEBT;" "THE UNION AS IT WAS AND THE CONSTITUTION AS IT IS;" "WHERE WE STOOD AND WHERE WE STAND,"

&c., &c.

NOTE.

Only a few copies of this Pamphlet have been printed; but any person may reprint and publish the whole, or any part, he may deem sufficiently useful.

OUR MONETARY CONDITION.

THE PRICE OF COMMODITIES IS AFFECTED, NOT BY ANY QUANTITY OF MONEY, BUT BY THE RELATION WHICH THE QUANTITY BEARS TO THE USES THAT EXIST THEREFOR.

An opinion is prevalent that commodities rise and fall in price, as money in any community is large in quantity, or small; but prices will be enhanced by no quantity of money, unless it exist in excess of accustomed uses; and no smallness of quantity will lessen prices, unless it exist in deficiency of accustomed uses. Excess of money lowers the rate of interest, by competition among lenders to obtain borrowers; and increases the price of commodities, by competition among purchasers to obtain articles that are relatively cheap, or unusually productive of income; till a gambling principle is evoked, and men purchase with the expectation that they can sell at a profit to-morrow, how exorbitantly soever they purchase to-day. When once aroused, speculation readily becomes contagious; and to the degree that money exists in surplus of known uses, the facility increases for borrowing it by the more reckless of the community, who, continually embracing new objects in their purchases, high prices become the general rule and old prices the rare exception.

A converse of the foregoing attends money's diminution, below the amount required for habitual uses. Interest enhances by competition among borrowers, who struggle to obtain the money they are accustomed to employ; and who will obtain it at any sacrifice dictated by the urgency of their need. Commodities fall in price by the pecuniary necessity of sellers, or by the increased gains that money can secure from those who are perishing for lack thereof. No new enterprises are undertaken, many that are inchoate are abandoned in the hope of thereby weathering the pitiless storm; while men of less hope succumb readily, and sink at once into liquidation. Some who have long been secretly insolvent seize the present opportunity to seem victims of only a general calamity, and declare themselves bankrupt. Bankruptcy becomes fashionable. Parvenue millionaires explode, like new wine in old bottles; palatial residences and showy equipages can be purchased at half their recent cost; a panic ensues, no man knows whom to trust; self-preservation supersedes avarice and friendship, till a general stagnation of business terminates the struggle.

Scarcity and abundance of money relate to only its sufficiency or insufficiency for accustomed uses.

With the subsidence of business the want of money has ratably subsided also;—business and money being reciprocal forces, and no man will pay interest for money when he has no lucrative use therefor. Banks and private persons, who still have outstanding credits, are more annoyed than pleased, as their debtors persist in repaying money; and thus by a transition entirely sudden, the comparatively small amount of money comes to

be deemed excessive, that remains after a pressure; and gives rise generally to all the symptoms of a repletion. When, therefore, men say money is abundant, they usually mean only that it can be borrowed readily on ordinary security, at the legal rate of interest; and the opposite of these conditions is what they mean by any alleged scarcity; but neither condition has any reference to the magnitude of the volume in which money at the time, happens to exist.

USES FOR MONEY INCREASE AND DIMINISH RATABLY WITH THE SUPPLY.

The money which a man is solicitous to obtain is limited usually to the requirements of his accustomed operations; but most persons will enlarge their business, as accumulated profits augment their capital. The same result attends, measurably, the power to borrow money, with any reasonable prospect of its retention; and thus the money that is procurable, becomes the only ultimate limit of man's commercial and industrial operations. On this principle every man possesses an interest in the wealth of the community in which he resides; and the commercial establishments of a country become correlative in magnitude with its wealth.

Under our legal tenders and specie suspended bank credits, money is increased in our country beyond all precedent; and at the same time, a large portion of accustomed business has been suspended by the war. Still so urgent is money to create uses for itself, that, under the privation of better employments, money holders are competing with each other, at almost fabulous prices, for rail road and kindred stocks, which, in

regular commercial times, were deemed almost worthless; just as sailors on long voyages, when casually deprived of tobacco, chew oakum, if it be the most congruous obtainable substitute. But men are not more gross in their speculations under a plethora of money, than they are fastidious under a great scarcity; and when the time shall arrive that money will shrink into the comparatively small compass of a specie redeemable capacity, and legitimate business shall resume its wonts, under the influence of peace; operators will look back with as much disgust on their present purchases of stocks, as we may suppose the sailors look back, when safely in port, on the oakum they resorted to in their tobacco famine.

THE QUANTITY MAN POSSESSES OF ANY ARTICLE, DICTATES ITS USE.

The principle just alluded to in relation to money, is applicable to all our possessions. Kerosene oil when originally produced, was wholly surplus; but possession gradually stimulated possessors to discover uses therefor; and the discovered uses kept struggling onward, to overtake the constantly increasing production, and became eventually commensurate therewith. The superabundance of any article, during a present year, becomes, thus, the necessary want of the succeeding year. A proverb says, that every child is born with a mouth to feed, and with two hands to procure the food. The world will never become so full of inhabitants that they can not be fed; nor so full of productions that they can not be used; hence we may parody the proverb and say, that every production the earth

can yield, will find mouths to eat it, or hands to employ it.

The diminution of money, or of any other article, is as adjustable by natural processes to man's wants, as the increase; the scarcity of any given year in any commodity, becoming the sufficient quantity of the succeeding year. The adjustment of man's desires to attainable quantities, is among the most conservative and most pervading principles of Providence; it making the beggar as contented with his crust, as the millionaire with all his luxuries. The world is fast adjusting its uses to the cotton famine with which it is now afflicted; and when the supply of cotton, whether larger or smaller than formerly, shall become again regular, it will soon constitute the sufficient quantity for which alone mankind will be solicitous. And the inhabitants of our great metropolis, who, like the drunkard of Scripture, are "reeling to and fro" with the excitement of superabundant money,—every man being able to borrow, and the poor being in a hurry "to make hay while the sun shines," will, after the return of ordinary times, and after the dreadful ordeal preliminary thereto, arise, calm as a convalescent from a bed of frenzy, and be again content with the slow processes of regular industry.

Suspension of Specie Payments becomes a necessity when we persist in using more money than specie can supply.

When specie in any country is insufficient to transact its business, specie must be superseded by some more abundant money, or business must be contracted to the specie capacity. Such a crisis is occasionally

produced by the over trading of a community, and governments look thereon with offended majesty; requiring usually a sacrifice of business, as a hecatomb for the unauthorized evil. But the exigencies of our war, have made government itself, the offending party, as a better alternative than taxation, for a necessary supply of money; or than its allurement from accustomed uses by exorbitant premiums. Neither of these methods would, however, have adequately supplied the money, and both would alike have prostrated business and demolished private fortunes. We may, therefore, be thankful, that after a few expensive trials, (issuing treasury notes to bear 12 per cent. interest, and selling 6 per cent. 20 year bonds at 5 per cent. discount,) the government created legal tenders, a money of its own, and as extensible as exigencies might require.

Legal Tenders are as valuable as the debts they can cancel.

An opinion exists that legal tenders are dependent for value, on their ultimate redemption in coin, as pledged by Congress; but a paper dollar's certain convertibility into coin at the end of fifty years, would give it a present value of only four cents in our State, where interest is seven per cent. the year. Its certain convertibility at the end of ten years, would make the present value not more than fifty cents. The present value of our legal tenders is, their ability to cancel existing debts. This, too, despite of, possibly, an oversight of Congress, in giving no pledge that the legal tender ability of the notes shall remain, till the notes are redeemed. The omission acquires some importance since the law of March, 1863, took from the

notes their convertibility into 6 per cent. bonds; though the convertibility was pledged to the notes as unqualifiedly as their legal tender ability. Should, however, the legal tender ability of the notes be rescinded, they would thereby cease from being money, and their further value would much depend on the terms of the rescinding law. The fifty million of Treasury notes created July 17, 1861, were not legal tenders, and were below par value, after even the law of August, 1861, assimilated them with coin in the payment of imposts; though on the suspension of specie payments, the notes gradually approximated to the price of coin.

Legal Tenders are more repletive of money, than irredeemable bank credits.

Bank loans being usually obtained to subserve some pre-existing commercial use, are less repletive of money than legal tenders, which are created to subserve the exigencies of government, and irrespective of commercial uses. Government may increase legal tenders so persistently and excessively, in continued advance of known commercial uses, as to make the notes almost literally useless, till business, stimulated by their existence, shall haply extend to embrace them. The best antidote against such a uselessness, consists in the holder's ability to fund the notes in government stocks, of sufficient productiveness to prevent the notes from seeking commercial employments. Under this remedy, legal tenders have several times been abstracted from commercial uses, to the extent of causing a money scarcity, notwithstanding money's existing gigantic proportions.

An antagonism exists between Legal Tenders and irredeemable bank credits.

To the extent that irredeemable bank notes and deposits can cancel debts, legal tenders are reduced from an equivalence with specie, to an equivalence with only irredeemable bank credits; just as the rod of Aaron became no better than the rods of the magicians, to the extent that all alike could be turned by the owners into serpents. The amount of legal tenders that can be created without occasioning a surplus of money, is lessened by, also, the amount of irredeemable bank credits that can be employed as money. But the most pernicious antagonism consists in the ability of banks to increase their irredeemable notes and deposits, with every increase of legal tenders; every million of legal tenders being efficacious in relieving banks from the danger of extending their credits. Legal tenders are even more efficacious than specie, in promoting bank inflations; specie being exportable or hoarded, while legal tenders are worthless for exportation, and not deemed much better for hoarding. That banks replete the currency by the power thus given, is to be expected; but it is evinced by the unprecedentedly great profits made every where by banks, notwithstanding the unusual taxation to which they are subjected. Bank profits are peculiarly large in cities like New York, where bank credits exist principally in the shape of deposits which are of illimitable creation; while country banks, whose credits are made principally by bank notes, are usually restricted by law. The patriotism of Banks, which has been remarkable, is thus as lucrative as the philanthropy of *Le Sage's Fabricious*, who assured Gil

Blas, that taking care of the poor was a very enriching employment.

THE ABILITY TO ILLIMITABLY REPLETE MONEY WITH LEGAL TENDERS, ENABLES GOVERNMENT TO BORROW AT ANY RATE THEY MAY DESIRE.

The interest government must pay for borrowed money, depends on the relation which the quantity they desire to borrow, bears to the quantity seeking employment; hence by emitting legal tenders in excess of existing uses, government can borrow at a rate dictated by the existing excess. The late annual Treasury Report indicates the acquisition of further funds by a sale of interest-bearing stocks or bonds, in preference to an augmentation of legal tenders. But the new stock or bonds must be paid for in existing legal tenders, which will yield no aid to government till they shall be reissued. Why not issue legal tenders in the first place, coupled with an ability in the holders to fund such as commerce may deem surplus? The Secretary's proposd plan seems much like placing the cart before the horse. His plan will please stock contractors, who will bargain for the new loan on terms dictated by the difficulty of abstracting existing legal tenders from their accustomed employments; but who will sell the new loan after the legal tenders shall have been returned by the Secretary to the public; and before the public shall have matured commercial uses therefor. The mode thus suggested, in contrast to the Secretary's new plan, is not different from the existing mode of funding legal tenders, by means of the five-twenties. But the present mode is not rapid enough,

says the Secretary. The appropriate remedy is to reduce the productiveness of legal tenders by an augmentation of their quantity. No increase, however large, need be feared, if, connected therewith, shall be a means of funding, as productive as the existing five-twenties, which pay, half yearly, 6 per cent. interest per annum in coin, with the assurance, in a published letter of Geo. Harrington, Acting Secretary of the Treasury, Aug. 5, 1863, to Fisk & Hatch, of New York, that the principal is to be, also, paid in coin. Such an investment was always deemed a fair equivalent for money; and it is superior to 7 per cent. mortgages, which are sought with avidity; though subject to more taxation than the bonds, and payable principal and interest in paper. If legal tender holders shall refuse to invest them in such bonds, the refusal will prove that more lucrative uses exist for the legal tenders, and justify their further increase.

GOVERNMENT INFLATES MONEY, RATABLY WITH THE SMALLNESS OF INTEREST IT PAYS ON ITS LOANS, AND VICE VERSA.

The new issue of 5 per cent. interest bearing-legal tenders, seems only a gratuitous waste of the interest, unless the notes are intended to force down interest to five per cent., thus placing government in the unfair position of taking an undue advantage of its own wrong, in repleting money. If repletion produced no other consequence than to enable government to borrow cheaply, we should not object to it; but every per centage the government saves in its loans, by a repletion of the currency, becomes the seed of large losses to the people;—losses to the rich in productive-

ness of their capital,—losses to the poor in the high price of sustaining life and decency,—and losses to all classes who will be in existence when money shall come to be reduced to a specie capacity: "for then shall be great tribulation, such as was not since the beginning of the world to this time."

The repletion of money is a greater evil to community, than the interest, saved thereby, is a benefit to government; and nothing is more short-sighted than to seek the welfare of government, at the expense of the governed. The government's best purse, is the people's pockets; from which taxes should abstract nothing except interest on the public debt, and that no faster than necessary; but not diminished in amount, by borrowing too cheaply. The faithful horse said to its rider, "up hill force me not,—down hill drive me not,—on level ground spare me not;" and the people may say to government,—with money replete me not, —with scarcity afflict me not,—from taxation, for all proper purposes, spare me not.

THE INCLINATION OF A PEOPLE TO REPUDIATE A NATIONAL DEBT, IS INVERSE THEIR CAPACITY FOR SELF-GOVERNMENT.

Some men, unobservant of surrounding changes, fear our National Debt's ultimate repudiation by the people. What a commentary is this on popular governments! A monarchist might say of it, with Shakspeare's Gratiano, "I thank, thee, Jew, for teaching me this word." But the rebellion has disarmed the people of any such licentiousness; though political aspirants may be base enough to seek power on such an issue.

We shall ever hereafter possess, as now, a government sufficiently strong to act independently; and the change is worth all its cost. In a remarkably profound book, published at London, by Sir Gaves Chamney Houghton, in 1839, he says, page 108: "The United States afford the extraordinary spectacle of a people *without a Government;* for an Executive that is under the necessity of fulfilling the bidding of the populace, at every effervescence of feeling, is no Government, in the proper sense of the word." We are under no such government now. The substance is changed, and with the full approbation of the people; like all other revolutions that history records; and which we have mistakenly deemed in opposition to the people. We desired a Union, whose bands should be sufficiently physical to enable a majority to be supreme over the minority,—such a Union being alone comprehensible, by the mass of mankind; and we have gained what we desired. The most obstructive element of the rebellious South, is its stupid adherence to a Constitution such as ours *was;* and its stupid rejection of a Constitution such as ours *is;* hence no unanimity exists in the "so called Confederate States," and their newspapers advocate treason to their government, as ours would *if they dared.* Their Union feeling keeps pace with our victories, and for the reason that reverence for power is a stronger motive for action, than sympathy for license. "The old flag" is not the attraction at the South, but its new attributes. Poor human nature,

> "——— born to be controlled,
> Stoops to the forward and the bold."

The innate veneration which properly makes us bow to our Creator, prostrates us improperly before his as-

sumed vicegerents on earth. More men sacrificed themselves to avenge Cæsar, than to defend Brutus; and while only one Charlotte Corday was found in France, millions apotheosized "the beast" Marat. The only sect of Christians that is dying out is the one of passive obedience and non-resistance; while the sect most numerous and flourishing, is the one of infallibility and millitancy. History repeats itself in nothing more legibly, than in the evanescence of republics. Like patriarchism, republics are adapted to only the infancy of a people; who as they attain maturity, ever hastened, as we have, "to put away childish things." "Is harmony to be coerced?" was last fourth of July in New York, asked, with unbounded simplicity, by a great and amiable statesman; and we need no better affirmative answer, than his own subsequent conduct. "Remember this," added he, "that the bloody and revolutionary doctrine of public necessity, can be proclaimed by a mob as well as by a government;"—and we may now more profitably add to our remembrance, that the foreshadowed mob experiment, was speedily tested, and as speedily demolished, *root and branch.* The Government need not, hereafter, exclaim with Job, "Oh! that mine adversary had written a book!" The great misfortune of such an orator is, that his attempts to reconcile incompatibilities, and to re-enact the *role* of Absalom, are adapted, like the bows and arrows of our Indians, to only bygone periods; but are wholly worthless against an armed million, with rifled cannon, Greek fire, and four hundred pounders.

WHEN COINS CEASE FROM BEING MONEY, THEY BECOME MERCHANDISE, WHOSE DAILY PRICE WILL OBEY THE LAWS OF DEMAND AND SUPPLY.

Whether we say coins appreciate, or paper money depreciates, prices remain unaffected by our phraseology; hence the question is appropriate to only a boy's debating society. A gold dollar will sell to-day, for ten per cent. more than a silver dollar, while both are equivalents as money. Not long since, the price of coins declined 50 per cent., though they were purchased at 23 per cent. premium, with the same paper money that had a few days previously paid for them a premium of 73 per cent. Like wheat, tobacco and cotton, coins vary daily in price, as the quantity sought by purchasers, exceeds or falls short of the quantity seeking a market; hence speculators can increase or diminish prices of coin, if they can control the supply; while legal tenders are innoxious of the rise or fall, except as their abundance facilitates their acquisition, or their scarcity makes acquisition difficult. We are not surprised at this in wheat, &c., and we need not be surprised at it in coins when they become divested of their strait jacket as money, and assume the freedom of merchandise.

Long usage is the sole reason of our identification of money with coin; but nothing is money but what the law makes to be such; hence the legal value of money is separable and distinct from the material of which the money is composed. When our government, some years since, lessened the material value of our silver small coins, no person who wanted the coins as money, disapproved the deterioration; and no person

desires now, the larger coins of gold or silver, in preference to legal tenders, except for some uses other than as money. Most governments make penal any exportation of its coins, or any use of them except as money; and while thus restricted in its use, no practical consequence attaches to what constitutes the money's material; except, that the more nearly the material equals, in merchantable value, the legal value of the money; the less danger exists of any undue repletion of money by governments. Money's quantity alone concerns the people, and this is best regulated by the equivalence above spoken of; which though not a perfect antidote, has always been esteemed the best known preventive against money's excess or deficiency for accustomed uses; the disturbing consequences of either condition having been always known.

We often hear in New York that coins rise or fall in price, as victories incline for or against our arms, and thereby are supposed to hasten or retard peace. Peace will diminish the Government's uses for money, and when they shall need no further loans, no motive will exist for a continuance of legal tenders. Indeed the present emission of interest-bearing two year notes, (self productive instead of productive only by employment as money,) looks much like a preparatory abandonment of an irredeemable government money; and a shifting on to Banks of the whole responsibility of an irredeemable currency. But while the government may thus easily resume specie as its only money, let no man suppose the change will much aid banks. Even peace will create for them, and the public generally, more new uses for money than those which the

war will suspend; while to reduce the whole to a specie capability, will be attainable by only the old process of pressure, bankruptcy and panic, the devastating storm which alone can purify financial disorders.

Every kind of money possesses advantages and disadvantages, peculiar to its kind.

A money limited to gold and silver, restricts business to the specie supply, and this constitutes its worst evil; and without wholly preventing a fluctuating currency by exportation, when coins can be used as bullion, more profitably than as legal money. The riches of California and Australia, at their first discovery, threatened a plethora of gold, and a consequent inflation of prices;—a plethora of gold coins being as effective in enhancing prices, as a plethora of paper money. But gold being transmissible every where at small expense, and its intrinsic value being much alike in all places, the new gold accumulated in no locality more rapidly than new uses were found therefor. Redeemable bank credits are but little more operative than coin, in producing a permanent glut of money, they being transmutable into specie and exportable, when the home money becomes excessive. But they greatly relieve the unexpansibility of a specie currency, by promising to pay specie beyond its attainability; and they are usually safe in such promises, bank creditors rarely demanding simultaneously more specie than banks can pay.

Legal tender notes being unlimitedly extensible, and only extinguishable by the will of government, are

deemed by many persons the perfection of money. They can be created and extinguished as the exigencies of business may direct, and thus by a wise supervision, perpetually save commerce from coerced contractions and from unwholesome expansions. The exchequer bills of Great Britain are thought to constitute somewhat such a money. Were governments sufficiently unselfish to be trusted with the power necessary to such a monetary system, and sufficiently wise to employ it skilfully, it might merit some consideration; but as men are constituted, it will never be practised, except, as in our case, by the necessities of a peculiar occasion, and to be abandoned as soon as the necessity shall cease.

A Compensating Principle pervades the Universe.

Finally, the world is not so dependent for its prosperity on man's prescient wisdom, as he is prone to suppose; but rather on a compensating principle by which Providence shapes our ends, rough hew them as we may. The surplus of money which intoxicates a community, and in its collapse, ruins multitudes of confiding victims, leaves undemolished the houses they erected, the ships and rail roads they built, and the general industry they promoted; the world reaps a harvest, though those who planted the crop failed to gather it. The destructiveness of war, the waste of munitions and all that they annihilate, make war a period of mechanical activity and industrial prosperity, that astonishes persons who estimate events by their effect on individuals, rather than on communities. The destructiveness, like "life's fitful fever," is soon

over, and the sufferers sleep in peace; but the arts and productiveness which war stimulated into existence, continue for ever, man rarely relinquishing either knowledge or powers after accident has developed them; hence the prosperity of ever-warring Great Britain has been a standing enigma to mankind. An American visiting the continent of Europe, is surprised at beholding women in the novel character of field laborers, and workers on rail roads and bridges. Women were taught these agencies by wars which abstracted men; but the usage survives, though the cause is abated. When wood, as fuel, became scarce in our country, nothing but calamity was predicted therefrom, but coal was eventually discovered; and when whales became scarce, the earth yielded us oil. The existence of both the coal and oil had long been indicated, to thousands of listless observers; but nature's hints were disregarded, till need stimulated researches. Sewing machines were not invented till the necessities of society trenched on the capacity of needlewomen; nor were rail roads and electric telegraphs, till loss of time was felt to be a social evil. The indulgence of ease is man's normal condition. Labor was inflicted on him as a curse; and it must be inflicted on him persistently, or he will be idle; hence nothing is so obstructive of industry to a youth, as rich parents; and nothing so obstructive to a nation, as a climate too genial to necessitate an accumulation of food for the unfruitfulness of winter; or houses, furs and woolens for protection from external inclemency. The thorns and thistles of a sterile soil are a provocative to labor, that acts far beyond a removal of the original obstructions. We lament the present high price of

gold and silver, but correspondingly high in price are all our staples, that we export instead of gold, or in procurement thereof. A few men of stationary incomes lose, but the multitude of producers are benefited; and our manufacturers relieved, by the rate of exchange, from foreign competition, are prospering beyond all precedent; and obtaining a foothold from which peace will be unable to drive them. The hive prospers, and the drones only are injured. Were societies capable of destruction by their follies and wickedness, their merciless wars and wanton devastations, we might well wonder that Providence should not interpose with some special vengeance on the perpetrators, as of old, when "the Lord said unto Cain, where is Abel thy brother?" But we live under a new dispensation; the world moves onward in an endless improvement of its condition, by general results, regardless of particular evils; and thus we may better understand God's promise, "that the wrath of man shall praise him, and [only] the remainder thereof he will restrain."

332
J63i

Johnson

An inquiry into the nature of
value and of capital